ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

PRIVATE CONFERENCES EN ROUTE [Western Tour]

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ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

INDEX

Page

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TOPICAL INDEX

1931
Dec.13

ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

The Royal Commission appointed to inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future developments of the country, met in private conference on the special train en route.

PRESENT:

Right Hon. Lyman Poore Duff, P.C., Chairman

Right Hon. Lord Ashfield Sir Joseph W. Flavelle, Bart. Beaudry Leman, Esq. Leonor Fresnel Loree, Esq., Walter Charles Murray, Esq. John Clarence Webster, Esq.	Commissioners

Arthur Moxon, Esq., K.C., Secretary

Officers of the Canadian National Railways:

S. W. Fairweather, Director of the Bureau of Economics,

E. P. Mallory, Director of the Bureau of Statistics.

A. E. Warren, General Manager, Western Lines.

Western Tour,
En Route Ottawa-Vancouver,
Sunday, December 6,
1 9 3 1.

PRIVATE CONFERENCE

MEMORANDUM OF DISCUSSION WITH THE COMMISSION

(Precis by Mr. Fairweather)

The first question discussed was the total increase in the funded debt of the Canadian National from January 1st, 1923, to December 30th, 1930, and it was explained to the Commission that the pamphlet entitled "Receipts and Expenditures, January 1st, 1923, to December 31st, 1930" covered the situation so far as the Canadian National Railway System was concerned and that the situation with regard to the Eastern Lines was covered in a separate pamphlet entitled "Eastern Lines - Memorandum re Accounting."

Members of the Commission expressed a desire to have a consolidated statement prepared showing the increase in funded debt of the Canadian National Railway System and of all the properties entrusted to it for management. This statement would then cover the Canadian National Railway System, the Central Vermont, the Eastern Lines, the Canadian National (West Indies)Steamships and the Canadian Government Merchant Marine. It was explained that it would take a little time to prepare this statement, but that the information was available and that it would be done.

The next point discussed was the income result for the period from January 1st, 1923, to December 31st, 1930, and members of the Commission again expressed a desire for a consolidated picture of all the properties, prepared upon the basis of excluding any interest due the Government; that is,

that the Government was to be viewed as the proprietor. Lord Ashfield, in this connection, raised the question of depreciation on equipment and some discussion on that point took place, the view held by the Canadian National being that in a continuing enterprise such as a railway, it was dubious as to whether retirement accounting, or depreciation accounting was the proper manner of treating the subject. It was made clear to the Commission that on the United States Lines, we practice depreciation accounting, but that on the Canadian Lines, we followed the practice established by the Board of Railway Commissioners and the Dominion Bureau of Statistics which omits depreciation as an operating charge, but does provide for the retirement, through operating expenses, of equipment as from time to time is determined by the operating officers. His Lordship stressed the point that this method did not adequately provide for obsolescence and when it developed that the retirements charged to operating expenses in 1930 were estimated at $3,851,000 and that the depreciable portion of the equipment investment amounted to $360,000,000, he pointed out that at that rate it would take approximately 100 years to retire the equipment. The railway company, however, feels that while retirement charges in the future may increase somewhat on account of the increased cost of units retired, that viewing the matter in the large, owing to the very satisfactory present condition of the equipment, the average age of which is

freight car equipment	15.4 years
passenger " "	19.1 "
locomotive "	17.6 "

and further that through the general additions and betterments to the property, which investments have been made from

operating expenses, although in reality a capital charge, but which, owing to the system of accounts adopted by the Interstate Commerce Commission, the railway is precluded from treating as such, that no accruals to provide for obsolescence are required. Some of such betterments charged to operating expenses are:

Installation of creosoted ties,

Improvement in ballast and drainage,

A considerable portion of tracklaying and surfacing in connection with heavier rail.

The Chairman suggested that a statement be prepared showing what effect equipment depreciation would have on the accounts, 3 percent per annum being adopted as the basis of calculation.

Discussion next turned upon the estimated deficit and financial requirements for the year ending December 31, 1931. In explanation of this item the financial budget as submitted to Parliament was submitted to the Commission and in a general way changes in that budget necessitated by the continuing depression were explained and a revised statement of financial requirements was also submitted, being the latest estimate of the total cash requirements for the year 1931. After some discussion, the Chairman requested that this statement be altered slightly so as to clearly reveal the income deficit, refunding expenditures, capital expenditures and other financial requirements. It was also suggested that in place of the equipment retirements of $3,851,000 that depreciation at 3 percent per annum be inserted.

The branch line extensions of the Canadian National were then touched upon and it was explained to the Commission that full financial details in regard to them could be found

in the pamphlet "Receipts and Expenditures" under the item "J". The Chairman requested that in addition to this information, a brief statement be submitted with regard to the reasons for the construction of each of the lines.

The acquisition of lines was next discussed and it was explained that financial details with regard thereto would also be found in item "J". The Commission questioned to what extent the acquisition of these lines was determined as a matter of policy by the railway company. The answer given was that the technical recommendation in all cases came from the railway company;- that with regard to the Inverness Railway, the Kent Northern Railway and the Gaspe Railways, the acquisitions were not advantageous to the Canadian National and this was known at the time the lines were acquired and that, therefore, motives of public service entered into the decision to acquire these lines, as distinct from commercial advantages. The Montreal Tramways line was acquired as part of the Montreal Terminal scheme and was purchased to furnish the railway company with a double track line in the east end of the city. The acquisition of the Quebec, Montreal and Southern was dictated by mixed motives. The railway was thought by the management to have a strategic value in that it served a territory likely to experience considerable industrial growth owing to the presence of cheap water transportation, cheap hydro-electric power and a favourable labour market. It also would, when reconstructed and extended to St. Appollinaire, furnish a low grade route from Montreal to the Maritimes, thereby avoiding extensive improvement and double tracking of the present connection from Ste. Rosalie Junction to Levis which otherwise was seen as necessary in

the comparatively near future. Motives of public policy in furnishing more adequate transportation to the communities served by the railway also affected the decision. The acquisition of the St. John and Quebec Railway was a matter of negotiation with the Province of New Brunswick. The line had previously been operated under a lease agreement and the sale relieved the province of certain financial charges which were transferred to the Canadian National Railways. It was also mentioned that in the case of all these acquisitions, the Government of the day was fully informed of the progress of the negotiations.

The next subject dealt with was a comparison of the operating efficiency of the Canadian National and the Canadian Pacific Railways. The question was asked as to why the operating ratio of the Canadian National was higher than the operating ratio of the Canadian Pacific, or in other words, why the Canadian Pacific succeeded in showing substantially greater profits on operating account than the Canadian National. It was explained to the Commission that many factors entered into the comparative operating results of the two railways and that if these be taken account of, the operations of the Canadian National were as efficiently conducted as those of the Canadian Pacific. It was explained that the Canadian Pacific Railway was built as an integral unit, each part being added for a designed purpose, whereas the Canadian National was formed from the consolidation of four railway systems, three of which were designed for active competition with each other. This situation created a somewhat difficult operating problem and in part was reflected by a lower density of traffic on the Canadian National than on the Canadian Pacific. It was explained that the operating

expenses of a railway were, to a certain extent, fixed, or independent of the volume of traffic and to a certain extent variable with the traffic; that on thin traffic lines the proportion to the total expenses which was fixed was high and, therefore, other things being equal, the line with the lower traffic density would have a higher operating ratio. The technical interpretation of this statement was gone into at some length and the feature of traffic density in itself would account for approximately half of the discrepancy between the operating ratios of the two systems. It was further pointed out that the transportation problem of the Canadian Pacific was comparatively simple in that they did not possess large terminals in the United States, nor were their terminals in Eastern industrial Canada so elaborate as those of the Canadian National, which company had extensive terminals at Chicago, Pontiac, Detroit, Port Huron and Buffalo in the United States and at Sarnia, Fort Erie, Toronto and Montreal in Eastern Canada. At the same time it was pointed out as having a bearing upon the comparison, that the average haul of freight on the Canadian Pacific was considerably greater than in the case of the Canadian National, which fact, together with the complicated terminal problem accounted for most of the remaining difference in the operating ratio. Finally, it might be pointed out that the operating expenses of the Canadian National include pensions and relief, which item is excluded from the Canadian Pacific operating results. This difference in accounting would affect the comparison to the extent of one point of the operating ratio, which would almost wholly account for the remaining difference.

The final subject touched on by the Commission was

the matter of political interference in the detail operations of the railway. It was stated that while matters of public policy had dictated the grand divisions of the system and to some extent affected capital expenditures, the detail operations of the railway were singularly free from political interference. The matter is one which has added to the task of the management, in that the management has been required to make investigations and reports on numerous occasions and to frequently justify managerial decisions, but that the actual operations of the railway were little affected.

Western Tour,
En Route Ottawa to Vancouver,
Monday, December 7, 1931.

PRIVATE CONFERENCE

Mr. A. E. Warren, General Manager Western Lines, joined the party at Winnipeg this morning, accompanied by Mr. H. A. Dixon, Chief Engineer Western Lines. During the afternoon the Commission discussed with them the information respecting branch line construction appearing in the statement of receipts and expenditures provided by the Canadian National Management for the information of the Commission.

With respect to certain items of the 1924-27 programme, Mr. Justice Duff asked whether the provision of branch lines had proved an economic investment. Mr. Warren replied that it all depended on the volume of business; that had business stood up, there would have been no doubt as to the economic results. He pointed out that in 1928 the western lines, extending from the head of the Lakes to the Pacific Coast, did a business of one hundred and two millions gross; that the business dropped this year to about fifty-seven millions gross.

Referring to Peebles-South line (Saskatchewan), Mr. Warren stated that, owing to crop failure, they were only operating now when the loadings offered justified a train. With respect to the Eyre-Acadia Valley line, (Alberta), a study is now being made by the railway management to see whether the project could not be abandoned. The Loverna-Westerly (Alberta), had been built largely at the request of the provincial government; it did not pay, owing to crop

failure, and part of it has not been ballasted.

Mr. Warren agreed to secure for Mr. Beaudry Leman a statement of the mileage built north of the old Canadian Northern line by the Canadian Pacific Railway during the last six or seven years. He stated offhand that north of the Canadian Northern, now the Canadian National, the Canadian Pacific had built 1,041 miles, and the two roads had joint running rights over 235 miles, 1,276 all told. From 1924 to date, the Canadian National had built 852.6 miles, and had joint running rights over 76 miles.

Sir Joseph Flavelle asked whether this penetration by the Canadian Pacific Railway had been a matter of agreement between the two companies, or whether it represented independent action on the part of the Canadian Pacific. Had the Canadian National objected before the railway committee.

Mr. Warren replied that, generally speaking, they would object to everything of that nature before the Railway committee.

Sir Joseph Flavelle asked why this penetration was considered necessary. Mr. Warren replied that the only answer no doubt was that the Canadian Pacific was reaching out for more traffic. Possibly they might also have had some lands of their own in the coveted territory. Mr. Dixon added that most of the lines referred to would be at least twenty miles or farther apart.

Mr. Beaudry Leman asked if they would consider them as competitive in that case. Mr. Warren stated that there was this to be said, that the new lines would develop new territory and make it easier for the settlers to ship their crops. Mr. Leman asked whether Mr. Warren could say what proportion of these competing lines could be regarded as

serving the same territory, and what proportion would not be strictly competitive. Mr. Warren was not prepared to say what of this construction might be considered as unwarranted. There might be particular advantages to the country with respect to some of these lines. He assured the Commission that the penetration, so far as the Canadian National is concerned, was effected with "soft shoes." There had been no trampling on its competitors with steel shoes.

Lord Ashfield asked how much of this mileage would have been constructed, supposing there had been a unified system of railways in that particular territory during these years. Mr. Warren replied that a great deal of the extensions by the Canadian Pacific was in territory so far removed from Canadian National's sphere of operation that he was not in a position to answer. He stated that one Canadian Pacific extension (Lloydminster) had taken 7,000,000 bushels of grain per annum from the Canadian National lines.

Lord Ashfield asked whether, in the event of a truce or standstill agreement with the Canadian Pacific, Mr. Warren would consider the construction of any particular branch line programme within the next ten years. Mr. Warren replied that that would depend upon the influx of settlers. If from 100,000 to 200,000 immigrants came into the western country each year and went on to the land, railway lines would have to be provided for them. In that case, Lord Ashfield replied that somebody would have to pay, and he asked who would pay.

Mr. Dixon stated that it was estimated that in the three provinces of Manitoba, Saskatchewan and Alberta, there were 215,000,000 acres of arable land; 90,000,000 of that was farms, and 37,000,000 under cultivation, leaving 120,000,000 acres still available for settlement.

Sir Joseph Flavelle asked Mr. Warren what remedies he might be prepared to suggest in the light of his experience for the purpose of getting out of the present mess. Mr. Warren replied that in 1928 the railways felt they were, if not over the top, at least riding towards it. Sir Joseph stated that he supposed the railways fell into the same error that other people did, and spent more than they should have, because they hoped it would be justified. He asked whether that was the reason they had accelerated their three-year branch line programme arrangement by bringing one in in 1929, the year before the 1927 three-year programme had been completed.

Mr. Dixon stated that the acceleration had been due to the demand of outlying centres to build branch lines, and that demand was in turn due to the immensity of the 1918 crop.

Sir Joseph Flavelle asked how far there might have been political pressure. Mr. Warren replied that, so far as they were concerned in western Canada, they could not answer. They dealt only with their executive; beyond that they had no knowledge.

Sir Joseph Flavelle asked what would be the circumstances which would compel the railway to bring in their 1929 programme before the expiry of the agreed three-year period, and after the time every one knew that things were going wrong. To that question Mr. Warren made no reply.

Mr. Webster asked whether the use of motor trucks for hauling grain to the railways would make a difference in the building programme of the railway. Was any of that being done now. Mr. Warren replied that a great deal of it was being done in western Canada. Trucks hauling the

crop from United States points would work north in fleets, contract the work from the farmer, and undertake this work. However, it could only be done up to certain distances. Otherwise the farmer was not going to get anything for his grain.

Mr. Dixon instanced that in the dry belt of Alberta the charge was half a cent per bushel per mile for hauling wheat, or ten cents a bushel on a twenty-mile haul. Dr. Murray remarked that the charge was almost as much as the cost to ship to the head of the lakes by rail. Mr. Dixon added that in some localities the charge was three-quarter cent per bushel per mile.

Sir Joseph Flavelle asked whether grain was still being hauled by wagon. Mr. Warren replied that in many cases the west was now enjoying hard surfaced roads. Seventy million dollars had been spent during the last five years by the three prairie provinces on road construction and maintenance.

Sir Joseph Flavelle asked how this had been financed. Mr. Warren replied that some of it had not been completely financed yet.

Sir Joseph Flavelle asked whether cognizance was being taken of the motor truck in the study the railway was making. Mr. Warren replied that the trucks were not competing with the railway, but were only bringing the grain to the railway.

Sir Joseph Flavelle asked whether that would be a factor affecting further construction of branch lines. Mr. Warren replied that no one could get him to recommend a single branch line at the present time. The railway would have to wait until they could see the sun again.

Mr. Loree asked whether Mr. Warren looked upon the

trucks as a permanent thing. Mr. Warren expressed his belief that the trucks would be permanent until there would be some system of government regulation that would deal with them on a basis that would be equitable. He mentioned that all the provincial governments of the west are to hold a general meeting some time during the next few weeks in order that the railways may put before them their case in regard to buses and trucks, after which they will endeavour to provide regulations to apply to the western provinces. As to meeting competition, they could only cut down their passenger service, and this they were doing. The railways were always looked to to handle business when other sources failed, as was often the case during the winter season. Buses and trucks should, in his opinion, be placed on the same basis as the railways, and pay their proportion of what might be called the right of way. Mr. Loree asked if any bus lines were paying dividends. Mr. Warren answered that they ran until they went broke, and then somebody else took over the equipment and the competition bobbed up again. Mr. Loree stated that the same thing happened in the United States, but expressed the view that he did not think the trucks were going to be in evidence for many years longer.

Mr. Justice Duff asked Mr. Warren to ascertain how much traffic the railway was getting as a result of the $2,500,000 spent on the Kamloops-Kelowna-Lumby branch, and Mr. Warren agreed to get out a statement. Sir Joseph Flavelle asked whether similar information could not be brought down with regard to all branch lines which had been completed and placed in operation. He asked what the general result was from the earning standpoint.

Mr. Warren - Red ink undoubtedly.

Sir Joseph Flavelle asked whether they brought a considerable volume of business to the main line. Mr. Warren replied that they brought a certain amount, but it would have to be borne in mind with respect to these branches that the West had had a crop of only 225,000,000 bushels, against a normal crop of 400,000,000 bushels, and a 500,000,000 crop in 1928. With an average crop next year, he felt that the result would be satisfactory. Sir Joseph Flavelle asked whether western lines in red ink in normal years would get out red in that case. Mr. Warren stated that, under conditions prevailing in 1928, the branch lines construction would be warranted. Sir Joseph asked in what part of the western lines the shrinkage of $50,000,000 had occurred. Mr. Warren replied that north of the Saskatchewan river the results had not been bad, but everything south of the river could only be described as from fair to bad. Then again, the lumber industry in British Columbia also had not been in good shape.

Sir Joseph asked what percentage of the business west of Winnipeg would be grain. Mr. Warren replied that 45 per cent would be, and the rest would be general merchandise, coal and lumber. The movement of coal was decreasing on account of general financial conditions.

Mr. Leman asked whether the two logging roads in British Columbia, Cowichan Bay and Vancouver Island line, would have been built under present conditions. Mr. Warren stated that personally he would have left that construction alone. However, he did not know how much pressure had been brought to bear. Mr. Lemam asked what pressure. Mr. Warren replied that there was always pressure when you had to

dicker with provincial governments. Sir Joseph Flavelle asked whether the question of interest on construction and fixed charges entered into branch lines recommendations.

Mr. Warren - absolutely.

In response to further questions, he went on to state that the operating officials were responsible only for operating efficiency, and were not concerned with financial results. He added that a fourteen per cent earning on the capital structure was necessary for proper results.

Mr. Warren remarked that many of the difficulties of the Canadian National had been inherited, and were the result of arrangements made before the Canadian National organization was established. Sir Joseph Flavelle asked him whether they had built branch lines after they had been recommended against by the management.

Mr. Warren - No.

Sir Joseph Flavelle - When you spoke of pressure a little while ago, you spoke of provincial government pressure?

Mr. Warren replied that he had more particularly in mind petitions from farmers' organizations and public bodies.

Lord Ashfield asked whether Mr. Warren considered rates too low. Mr. Warren replied that he would like to think the question over; he did not wish to give any snap judgment. Lord Ashfield replied that of course rates could only be such as the traffic would bear. Mr. Warren stated that, compared with the rates across the line to the south, the Canadian railways were certainly entitled to some increase, but he questioned whether the country would stand for it.

Mr. Justice Duff asked whether the Canadian National would build to Prince Rupert if they had it to do over again. Mr. Warren stated that personally he would not put any money

into such a project.

Lord Ashfield asked as to the possible closing out of certain branch lines. Mr. Warren replied that some could be closed, but it did not necessarily mean that they would be. Such matters were dealt with by the Board of Railway Commissioners.

Lord Ashfield asked Mr. Warren for suggestions as to how economies might be effected in the operation of the railways in western Canada. He asked Mr. Warren to consider the matter as though he had full control of all the railways in that area, and at the same time recognizing his responsibility to the public. Any aid that Mr. Warren could give them in that respect would be very helpful to the Commission. Mr. Warren said that he would think over what services might be eliminated, and what might be coordinated, and give the Commission the benefit of his views later.

Western Tour,
En Route, Ottawa to Vancouver,
Tuesday, December 8,1931.

PRIVATE CONFERENCE

This afternoon the Commission asked Mr. S. W. Fairweather, Director of the Bureau of Economics, Canadian National Railways, who is accompanying the Commission as Sir Henry Thornton's personal representative, to give the Commissioners the benefit of the study he had made of the possible economies which might be expected to result from a consolidation of the Canadian Pacific and Canadian National Railway systems. Mr. Fairweather stated that he had prepared a somewhat extensive report in the matter for Sir Henry Thornton as late as November 27th last.

Mr. Fairweather stated that the economies which could be foreseen as a result of consolidation were undoubtedly large, but could only be effected by the resolute facing of a situation which required sacrifices both individually and collectively as, if it is to reach large proportions, it would involve drastic abandonments of line, reduction in quantity and quality of service, particularly passenger service, and a considerable disturbance of the railway labour and material market. Canada would also have to be prepared to accept the risk attendant upon monopoly, the possibility of inadequate service, of inefficiency, of carelessness, and of political difficulties arising from the creation of a large group with a common interest.

Mr. Fairweather divided the possible economies under eleven headings, using as a basis the reported accounts and statistics of the Canadian National and Canadian

Pacific Railways, supported by special information where necessary. On the low volume of 1931 traffic the anticipated economy from consolidation at present level of prices and wages was estimated at $49,000,000 per year, to be realized only after a period of adjustment tentatively set at five years.

On the basis of normal traffic, substantially 30 per cent above the traffic of 1931, the anticipated economy from the consolidation was estimated at fifty-five million dollars per year. In addition to this improved financial results arising from readjustment of traffic and of operating conditions, there would be a constructive betterment arising from the release of materials and equipment which would greatly reduce capital requirements for a period of years. The capital value of this released material, allowing for salvage costs, would be $48,000,000, interest upon which at 3 per cent amounts to $1,500,000 per year. This estimated saving was divided among the following services in the proportions indicated.

	basis 1931 Traffic	Normal Traffic basis
General Overhead Expenses	$ 1,020,000	$ 1,020,000
Readjustment of tariffs and traffic	5,870,000	7,050,000
Traffic solicitation and advertising	5,800,000	6,800,000
Operating economies, freight & passenger	25,850,000	30,470,000
Purchases and stores	2,500,000	2,500,000
Accountancy & statistics	500,000	500,000
Hotels	4,500,000	4,500,000
Express	500,000	600,000
Telegraphs	600,000	700,000
Other subsidiaries	700,000	800,000
Total	$48,840,000	$54,940,000
Economic value of released material	1,500,000	1,500,000
Grand total	$50,340,000	$56,440,000

Mr. Fairweather proceeded to examine these estimated economies in order, subdividing general overhead expenses into directors' fees and expenses, general officers' pay and expenses, clerks and attendants, office rent, and office supply. He stated the main directorate of the Canadian National Railways consisted of 17 men drawing approximately $44,000 a year in fees and expenses. The Canadian Pacific main directorate consists of 17 men, but the extent of their fees and expenses was not available. There were in addition in both organizations, directors of subsidiary companies,the fees and expenses of which in the case of Canadian National did not amount to more than $4,000 per annum. Mr. Fairweather estimated that a consolidated directorate would effect a saving of approximately $50,000 per year.

Under general officers pay and expenses Mr. Fairweather grouped the President, Vice-Presidents, Secretary, Registrar, Treasurer and the system technical advisory staff. Altogether there appear to be 32 positions in which there is a duplication of functions, and were it not for the fact that the consolidation would create a system of such magnitude as to be almost unwieldy, one-half of these duplicating positions might be abandoned. The estimated saving in salary and expense would, in that event, approximate $600,000. However, so unwieldy would be the consolidated system that in all probability it would be necessary to retain some of the apparently duplicating positions, or alternatively to raise the standard of the positions and supplement it with subordinate technical staffs. It might be desirable to departmentalize the general executive control instead of centralize it under

a single President. A natural subdivision would be legal and finance on the one hand and operation and traffic on the other, or again on operation, a subdivision of the general operating authority might be made into matters of current operation on the one hand, and budgeting and planning on the other. Having regard to these considerations it was not anticipated that the net economies would exceed 60 per cent of those indicated by apparent duplication. This would amount to $350,000 per year.

Under clerks and attendants were grouped subordinate technical assistants, heads of system sub-departments and clerks. The combined expense of the two railways under that head now amounts to about $5,500,000 per year. Having regard to the expectation of a lessened total operating expense, amounting to possibly $30,000,000 per year with consequent reduction in supervision, it was anticipated that economies under this heading would amount to approximately $500,000.

Office rent and office supply for headquarter staff were regarded as minor items. The saving on the first was estimated at $20,000 per year on the basis of $1 per square foot. Office supply, it was thought, might be cut from $255,000 per year to $155,000.

Under readjustment of tariffs and traffic, Mr. Fairweather discussed the effect of consolidation upon traffic in so far as such readjustment would affect the revenue accounts. Mr. Fairweather referred to a number of exhibits dealing with re-routing of foreign interchange traffic to lengthen system haul. These readjustments it was estimated would increase the freight revenues by

$6,570,000. This increased gross revenue would, of course, carry increased operating expenses. These on a direct out-of-pocket basis were estimated to amount to $3,250,000 for both freight and passengers, leaving an increase in the system net of $3,320,000.

Allied to the re-routing of foreign interchange traffic was the question of readjustment of interline division. The volume of traffic interchanged by the Canadian Pacific and Canadian National railways with United States roads, other than their own subsidiaries amount to approximately $50,000,000. It was anticipated that, automatically, the basis of division could be readjusted to yield an increase of approximately 5 per cent, which would amount to $2,500,000 per year.

Other economies considered possible were the cancellation of all agreements with carload consolidating companies. Under unified operation the competitive incentive to the practice of consolidating L.C.L. shipments would be removed with an estimated beneficial effect upon net income of $100,000. The necessary revision of Canadian National and Canadian Pacific interline rate structure, a debit item resulting from consolidating, would amount to about $250,000 a year. Then there was traffic loss by line abandonments or reduced services to be considered. The approximate station earnings on lines recommended for abandonment amounted to $2,950,000 per year. The amount of that traffic which would be totally lost was estimated at $250,000.

Traffic solicitation and advertising was next considered. Superintendence of traffic staff cost the two railways approximately $3,500,000 per year. It was estimat-

ed that this item could be reduced by 40 per cent, resulting in an economy of $1,400,000. Traffic soliciting agencies cost the two railway companies $8,200,000. A combination of these activities presently competing with one another would effect an economy estimated at $3,000,000 per year. What was said of agencies was even more true of advertising including for the purpose of this study the cost of radio. The combined expense of the two railways under that head amounted to $4,800,000 and anticipated economies to $2,000,000 per year. On traffic associations costing $250,000, $100,000 might be saved; on industrial and colonization activities, the expense of which amounted to $800,000 per year, an economy of $300,000 might be expected.

Under the general heading economies, freight and passengers, about half of the estimated saving of $50,000,000 was set up. The saving on regional supervision was estimated at $200,000 per year, supervisory district economies at $350,000 per year, and district supervision at $600,000.

The abandonment of 988 miles of main line was considered possible together with 1,035 miles of duplicating branch lines and 249 thin traffic lines, a total of 2,272 miles. The economy to be anticipated from these abandonments was estimated at $3,750,000 per year and consisting mostly of that portion of the maintenance of way and structures which is independent of use, together with the cost of skeleton train service on thin traffic lines.

The re-routing of main line traffic as a result of consolidation presented some possibility of economy, but generally speaking the analysis of comparative operating conditions showed that no considerable out of line haul to

the main line of either railway could be justified by improved operating conditions on the alternative main line. The chief opportunities for economies under that heading were:

Use of C.N.R. as freight line, Kamloops to Vancouver.

Routing of traffic from northern Alberta and Saskatchewan to and from Vancouver via Yellowhead Pass, C.N.R.

Reduction of branch line haul to main line in western Canada.

Reclassification of main line.

The total anticipated economy under these several heads amounts to $1,500,000.

Increase in car loading by 5 per cent was felt to be possible and in that way it was estimated that on the basis of 1931 business an economy of $4,000,000 a year might be effected. The loading of locomotives closer to their potential capacity would permit of increased train loading and if an improvement of 5 per cent could be achieved a reduction in operating expenses on the basis of 1931 traffic might be expected amounting to $2,200,000.

There was an opportunity for economy in the operation of large freight terminals. These exist at St.John, N.B., Quebec, Montreal, Ottawa, Toronto, Hamilton, London, Windsor, Port Arthur, Fort William, Winnipeg, Regina, Saskatoon, Edmonton, Calgary and Vancouver. The total yearly cost of operation of these freight terminals by the two railways approximates $30,000,000. It was anticipated that about $2,000,000 per year could be saved without additional capital expenditure. It was pointed out that the modernizing of freight terminals would be a very remunerative field for added capital, ten or fifteen million

dollars expended for terminal facilities for the consolidated system would yield a return of at least 20 per cent per annum.

The Canadian National and the Canadian Pacific Railways have each a number of locomotive and car shops, the Canadian National twelve shops employing normally 12,296 men and the Canadian Pacific nine shops employing normally 10,551 men. Canadian shops could be concentrated at Montreal, Winnipeg and Calgary, with an increase of efficiency. This would involve the closing of shops at other points with consequent reduction in overhead expenses and a reduction of repair costs by full application of mass production, with an attendant economy of $4,000,000 per year.

Under consolidated operation drastic cuts could be made in inter-city and transcontintental passenger service. The travelling public would suffer some inconvenience but it was anticipated that 3,600,000 passenger train miles could be eliminated without reducing to any considerable degree the effectiveness of the railway service. This reduction in train mileage would represent an economy of $4,500,000 per year. This amount would have to be discounted somewhat in view of the drastic cuts already made in C.N.R. train service. Further possibilities might exist in the substitution of unit cars for steam trains, but that could not be accomplished without considerable capital expenditure.

There are 249 points in Canada common to both the Canadian Pacific and Canadian National railways; of those points 29 are joint stations. The balance represent opportunities for unification and consolidation. Of this

number the larger points are, Montreal, Smiths Falls, North Bay, Hamilton, London, Winnipeg, Fort William, Port Arthur, Saskatoon, Edmonton, Calgary, Vancouver, Victoria, B.C. Considerable economy could be effected at both points by joint operation, but in the majority of cases that would lead to large capital expenditures, and each case would require careful study. It should be possible however to consolidate without very large expenditures at Hamilton, London, Saskatoon, Calgary and Edmonton, and the economies resulting therefrom would amount to approximately $200,000; at the remaining 235 points where there are two stations, it would not be feasible in many cases to make the track rearrangement necessary to consolidate all train movements into one station, but it should be possible to consolidate into one station all ticketing and billing and reduce the use of the remaining station to the bare essentials for the accommodation of traffic. In that manner immediate economy of approximately $450,000 could be effected, which, combined with the $200,000, would represent an annual saving of $650,000.

Luxury services have been encouraged by the spirit of competition. This had taken the form of expensive equipment, the practical neglect of upper berths in sleepers and the provision of very high class dining service. This latter item alone cost the railway $4,700,000 in 1930, offset by receipts of $3,000,000. Either rates should be obtained commensurate with the value of service rendered or the service could be reduced commensurate with the amount paid. In either case a net economy of about $2,000,000 per year might be anticipated.

A stricter supervision of loss and damage claims

and the elimination of the competitive factor in making settlements should effect substantial economies, amounting to possibly $100,000.

Under purchases and stores an economy of $2,500,000 was conceivable. Materials and supplies account for the two railways approximates $67,000,000 and after a period of adjustment there would seem no good reason why this should not be reduced by $15,000,000. The out of pocket cost of carrying these materials, having regard to interest, warehousing and depreciation, would not be far short of 9 per cent per annum, and on this basis an economy of $1,500,000 was indicated.

The possession of a virtual monopoly in railway transportation would practically eliminate the pressure placed upon the railways to consider traffic in placing orders. The material purchases of the two railways in 1930 approximated $140,000,000 and it was anticipated that an economy of one half of one per cent would be possible, or $700,000 per year.

The printing and stationery expenses of the two railways in 1930 was $2,300,000. Based on the results obtained by standardization and budgeting on the Canadian National it was anticipated that an economy of $300,000 per year could be effected as a result of consolidation. Substantial economies might be effected in accounting and statistical work. In addition, if occasion were taken to simplify the financial structure of the Canadian National and to centralize the accounting organization further, large economies would be possible, the whole estimated at $500,000.

The Canadian National and Canadian Pacific railways

own 20 hotels and 12 summer resorts. In addition they are financially interested in a number of other hotels and resort enterprises. In the former case the hotels and resorts are operated as departments of the railways. In the latter case they are separately operated. The investment in hotels and resorts approximates $95,000,000, and the investments in affiliated properties approximates $8,000,000. It could not be said that these hotel ventures had been profitable in themselves however necessary they may have appeared from the point of view of larger policy. In dealing with this situation under consolidated conditions it was quite possible that the most desirable procedure would be to dispose of the hotel properties to a private syndicate at the best price they would fetch. Under consolidated conditions the chief competitive incentive for operation of hotels by the railways would be gone. In negotiating a sale to a syndicate the capital investment would necessarily have to be scaled down somewhat to ensure profitable operation and a considerable degree of the railways equity would have to be in the form of common stock. A tentative financial set up was given by Mr. Fairweather as follows:

Security	Total amount	Rly Portion
1st Mortgage bonds	$ 45,000,000	$ 45,000,000
2nd Mortgage bonds	25,000,000	12,500,000
Preferred stock	15,000,000	5,000,000
Common stock, 500,000 shares	No par value	200,000

Mr. Fairweather felt that the liquidation of the bonds should not present serious difficulty once the present depression is ended and might be expected to yield at least $50,000,000 in cash, which might be further enlarged

by sale of the preferred and common stock later. At best, capital invested in hotels does not yield more than one per cent; on the other hand invested in remunerative improvements to the railway system it should earn at least 9 per cent. The difference represented a net economy of $4,500,000 per year.

Each railway company operates an express service on its Canadian lines. Economies as a result of operation would largely consist of curtailment of supervision and general overhead, consolidation of outside agencies or offices in the larger centres, and of station services in the smaller centres. Estimated economy, $500,000 per year.

The commercial telegraph operation of the two systems is somewhat similar to the express. Consolidation economies amounting to $600,000 per year might be anticipated.

Both railway companies carry on miscellaneous operations such as warehouses, terminal trucking companies, coal mines, coastal steamships, etc. It was suggested that there was a field there for considerable economy, estimated at $200,000 per year by the operations of the Rail and River Coal Company to provide for the requirements of both railways and of $500,000 per year on lake and coastal steamship account.

The abandonments of line, the curtailing of train service, the improvement of train performance and the consolidation of shop operation would release large quantities of track and bridge material and would result in a considerable surplus of freight and passenger cars, locomotives and shop machinery. It is not anticipated that

surplus stocks could be disposed of for cash, but this surplus of material would have a value equivalent to a large sum of money annually because it could be used to defer investment of new funds in capital expenditure. A classified estimate of the released material indicated a total value, less salvage, of $48,000,000. Even allowing for warehousing expense and depreciation until put to active use, this capital should have a net value of $1,500,000 per year.

Mr. Fairweather stated that the actual working out of a programme of consolidation would require the employment of the technical staffs of both railways for a number of years before the opportunities would be exhausted. The conclusions arrived at were largely drawn from the experience gained in the consolidation of the properties of the Canadian National system, and in this connection it was mentioned that the Canadian National problem was dealt with under the stimulus of competitive conditions. Whether with this incentive lacking the economy referred to could be effected was to a certain degree questionable. The programme was predicated upon a docile or practically helpless public and an equally docile or helpless staff of employees.

In conclusion Mr. Fairweather dwelt on the cleansing benefits of competition which he held to be absolutely essential to efficient operation. He honestly felt personally that with the principle of competition lacking a proper esprit de corps as symbolized in Canadian National Railway and Canadian Pacific Railway management could not be secured. He spoke also of the benefit to the shipper by the joint use of freight terminals, stating that in 1923 when the Canadian National management was being estab-

lished the Canadian Pacific was approached with a view to consolidating freight terminals with joint switching facilities so that shippers might be free to ship their goods any way they pleased inside Canada, but nothing came of it.

Asked how much might have been saved by such an arrangement, Mr. Fairweather replied that it would amount to about $2,000,000 per year. He felt that 25 per cent might be earned on any capital up to $15,000,000. If the shippers throughout Canada were free to ship their goods with the knowledge that they were getting the best railway service possible, each railway retaining the long haul as far as possible, the increased freedom of buying and selling and the location of plants would be of decided advantage to the country and, since the life blood of the country flows through the railways it could not help but be beneficial to the railways.

Mr. Fairweather spoke also of the advantages of the use of the blanket way bill as between the Canadian Pacific and the Canadian National railways by means of which C.P.R. train loads originating in the Peace River country could, under a blanket way bill arrangement, be diverted towards Vancouver at Edmonton instead of being carried down to Calgary. Under that arrangement also Canadian National business in the Calgary district could be sent forward to Vancouver via the Canadian Pacific by way of Calgary instead of being long hauled by way of Edmonton. Such an arrangement would be very useful during periods of congested traffic and it would defer certain capital expenditures for at least twenty years. It was in part with this expectation in mind that the Quebec, Montreal and Southern

had been acquired to be used as a low grade alternative route to the present Intercolonial line in that area. In that case, however, there had been other considerations also.

Mr. Loree questioned Mr. Fairweather as to the possibility of an export rate based on Albany. He stated that if the Board of Railway Commissioners agreed to that proposal, which was doubtful, the same rate would be demanded through the port of St. John. In any event there were national considerations involved. Personally, if and when they got the port established at Albany, it was his opinion that Albany would be the true winter port of Canada from the point of view of economics, but from the point of view of nationalism, which was the curse of our present civilization, the use of that port by Canada was not feasible.

Western Tour,
En Route, Ottawa-Vancouver,
Tuesday, December 8,1931.

PRIVATE CONFERENCE

Following his presentation of the economic possibilities of consolidation of the Canadian National and the Canadian Pacific properties and services, Mr. Fairweather read to the Commissioners the following study he had made for Sir Henry Thornton, about November 30th last, of the possibilities of cooperative use of facilities as between the two companies. At the conclusion of his paper, Mr. Fairweather expressed the belief that economies of at least $35,000,000 (out of a total combined expenditure of $650,000,000) could be achieved, while at the same time, preserving a helpful measure of competition. Mr. Fairweather's paper follows:-

The Canadian railway problem, serious as it appears, should be viewed in the proper perspective. Despite the troubles which presently afflict them, the railways of Canada continue now, as in the past, to furnish transportation as low in cost and as high in quality as anywhere in the world. This record, when viewed in the perspective of low traffic density, as well as climatic and economic handicaps, indicates that there can be little wrong with them in an organic sense. Canada is a country of magnificent distances. Cheap transportation is a vital requirement, and Canada enjoys at the present time practically the cheapest way of transportation in the world. The fact that railway rates fail to adequately provide for interest on invested capital in these

abnormal times is a situation common to practically all railways on this continent, and is not at all peculiar to Canada. The further fact that the capital structure of the Canadian National Railways has embalmed within it all the mistakes of prior managements, which, in the normal course of events, could have been sloughed off by receiverships, as has been done in other countries, seriously distorts the financial results, and therefore presents a false picture of the operations.

The chief factors in the present railway problem of Canada are:-

(a) The present world-wide depression.

(b) Too great an expansion of railway construction in recent years.

(c) The presence of subsidized competitive water transport.

(d) The growing importance of highway transport and its tendency towards uneconomic competition with the railways.

(e) An over emphasis upon the quality of passenger and hotel services.

(f) An archaic rate structure complicated with statutory fixed rates.

The pressure exerted by the present long continued and world-wide depression has served to bring forcibly to attention the weakness of Canadian railways. Their strength in continuing to furnish adequate and extremely cheap transportation is apt to be overlooked. This is a basic fact of which all Canadians should be proud. It is, however, true that railway transport in Canada has been made more expensive than necessary by a too rapid expansion of railway building, in some cases directly competitive, and by unwise competition in passenger traffic hotel services, which are notoriously unprofitable.

In the present economic crisis, it is doubly necessary that Canada should keep her basic transportation costs to a minimum, and there is, therefore, good justification for examining the present situation to see what can be accomplished. The capital invested in railway construction and facilities must be viewed as fixed. The money has been spent, and it cannot be recalled, and therefore attention should be directed to ensuring the maximum of operating economy. On this score, consolidation of the Canadian National and Canadian Pacific Railways into one operating unit would, on the surface, appear to be the best way of accomplishing this, since at one stroke all forms of wasteful competition would be immediately eliminated. A preliminary study has been made of the full effect of consolidation, and it appears as if a saving of fifty millions of dollars per year might be accomplished. This is a large sum, but again it is well to view it in the perspective of the whole problem.

The total cost of rail transportation in Canada is about five hundred million dollars per year, and the perspective saving is, therefore, ten per cent, but the total transportation bill of Canada, including railway, road and water transport, is close to one billion, seven hundrdd and fifty million dollars per year, and viewed in this perspective, the fifty million dollars per year on railway transportation account is less than three per cent. It might well be asked whether for an economy of three per cent of Canada's transport bill, it would be desirable to place the destiny of the railways in the hands of a monopoly with the attendant danger

of inefficiency, lack of initiative, and "the public be damned" attitude, which would naturally follow, and when to this is added the danger of creating a large body of electors with a common interest, it is quite probable that greater problems would be created than those which would be solved.

On the other hand, it would appear as if the major factor which has produced such adequate and low cost transportation in Canada has arisen from the competition between the railway systems. Canada is unique among the countries of the world in having two interlacing railway systems serving competitively every important centre in the country. Canada has enjoyed the full measure of the benefits of competition, and if on the passenger and hotel side it has led to unwise expenditure with emphasis upon luxurious service, it is none the less true that on the freight traffic side it has provided a high standard of service at extremely low cost.

The most logical solution of the problem would be to preserve the spirit of competition in the field where it has proved so effective and to eliminate it in the field where it has proved pernicious. Add to this general principle the cooperative use of facilities where competition is not disturbed and costs can be reduced, and the result will be that practically all of the benefits of consolidation will have been achieved, without the risks attendant upon monopoly. These principles might be applied somewhat as follows:-

Passenger Service.

Organize a passenger transport company to handle all passenger business of the Canadian National and

Canadian Pacific Railways. This company would own all passenger train car equipment and station facilities used exclusively for passenger business. It would determine the quality and quantity of service, and would carry on the necessary advertising, and would issue and sell tickets. Each railway would be reimbursed in bonds for property turned over to the new company and would be paid for the transport of cars at a figure as near the actual cost as could be arrived at, the total car mileage being equally divided between each system. The profit or loss at the end of the year would be divided equally. This proposal has the advantage of completely eliminating the destructive competition in passenger service. The public would be protected against unfair service on account of highway and air transport, and in transcontinental service by competition afforded by United States railways.

Pacific Coast Steamships.

As an outgrowth of passenger traffic, each railway system owns and operates a fleet of passenger vessels on the Pacific Coast. It is suggested that these services be consolidated into a holding company in a similar manner to that provided for passenger train equipment, and that this holding company should be a subsidiary of the passenger transport company. A careful survey would probably indicate that a number of the boats should be disposed of.

Hotel Service.

As in the case of passenger traffic, competition between the two railways has led to an over emphasis upon quality of service, with the result that the

investments in hotels are largely unremunerative. It is suggested that a hotel company be organized to consolidate the hotel activities of both hotel systems; that drastic economies be put into effect, and that, when a favourable opportunity presents, the investment of the railway in hotels be liquidated.

Telegraphs.

Each railway system owns and operates a telegraph system. This was a natural outgrowth of the necessity of a telegraph for railway operation in a country so sparsely settled that a telegraph company as such could not afford to operate. The commercial activities grew up as a side line, and from that point of view were and still are profitable. While economies from a consolidation would not amount to anything substantial in money, it is true that both telegraph systems are experiencing keen competition from the Bell Telephone Company, and since no competitive principle is sacrificed, it is recommended that the telegraph services be consolidated, with a view to meeting most effectively the competition of the Bell Telephone Company.

Express Service.

It might be anticipated that what has been said on passenger service would apply to the express service, especially in view of the consolidation of express services in the United States. The express service in Canada is in reality a specialized high speed freight service, and in all probability will be the most effective weapon of the railways in meeting highway competition. It would appear unwise to consolidate the express services without a consolidation of the freight

services, and the latter has already been disposed of as an unwise step.

Freight Service.

Although the consolidation of freight services would be unwise, no opportunity for economy through cooperation should be overlooked, and there are a number of instances where cooperation would effect substantial economies. Some of these are:

(a) Make all freight terminals at the larger centres joint facilities. Among those might be mentioned are Montreal, Toronto, the Lakehead, Winnipeg, Saskatoon and Vancouver. It is not contemplated that separate companies be organized, but simply that each terminal be a joint facility under a joint superintendent, and that the terminal equipment and facilities be pooled. In addition to permitting a fairly substantial immediate economy, the public would receive a benefit in that inter-switching would be universal, and the full service of either railway system would be available, instead of as at present be limited by inter-switching at exclusive zones. A further large economy would be possible by the application of capital for the construction of really efficient terminals. Money so invested would yield a return of at least twenty-five per cent per annum.

(b) Make an arrangement for the blanket waybilling of traffic of each railway over the other where an economy would result, each railway to retain the gross revenue of its own traffic and settlement for service to be made through the medium of a clearing

house, dealing in equated gross ton miles, - balances to be worked out in service or adjusted in cash. There are certain sections in Canada where the application of this principle would result in substantial economies by avoiding an out of line haul to retain gross revenue, or the hauling of traffic over an inferior parallel line for the same purpose. In periods of traffic congestion, the system of blanketing the traffic would also afford considerable relief.

(c) Provide for joint operation over lines where duplication exists, thereby permitting a substantial reduction in service on, or the complete abandonment of, the other lines.

(d) Establish an arrangement for the interchange of locomotives and car equipment designed to minimize empty car mileage and foreign car per diem payments and investment in locomotive equipment.

(e) Among other minor items are:

1. Cooperation in the lake and rail business. The Canadian National to use the Canadian Pacific boats between lower lake points and the lakehead, and the Canadian Pacific to use the Canada Atlantic Transit Company to United States points.
2. Abolition of affiliation with Car COnsolidating Companies and the strict limitation of the practice of the tariff requirements.
3. Cooperation in interchange of traffic with foreign lines.
4. Some reduction in competitive service on parallel branch lines serving the same territory might be effected.

Miscellaneous.

Other opportunities for substantial economy would result from cooperation in advertising, especially the use of the radio, and in the activities of certain departments which are more properly governmental than railway in scope, such as Natural Resources, Colonization, Agriculture and Immigration. These departments might well either be consolidated or completely abolished and their activities absorbed by government departments.

Properly carried out, the above suggestions would result in very substantial economies, approximating those which might theoretically result from complete consolidation, without the attendant dangers of monopoly. To round out the situation, however, it is necessary to deal constructively with highway and water transport. Water transport on a subsidized basis has been very active in Canada and is to a considerable extent directly competitive with railways. Vast amounts of money have been expended upon canals, channel improvements, and harbour facilities, and those facilities are in general made available without a specific charge on the traffic, the cost being absorbed in the general tax rate. Water transport will be further intensified when and as the great waterways are constructed. Although not a present pressing problem, in that it has been a continuing factor, the equity of this competition must be fairly questioned.

Highway transport is a new development and the full scope of its activity in an economic sense has not yet been determined. It would appear, however, from basic considerations, that as a passenger facility highway

transport is a logical competitor of the railway for any distance, but that as a freight transport medium its economic scope is limited to a distance of approximately fifty miles, beyond which distance the use of the highway is uneconomic as compared with the railway. Some effective control should be instituted limiting highway transport to its proper economic sphere. As a start, taxation sufficient to pay for the wear and tear on the highway and to compensate for the use of public property for private gain should be instituted. The general level of commercial vehicle taxation in Canada is far too low and does not pay more than a fraction of the cost incurred. The highway problem of Canada is in point of fact a larger problem than the railway and merits most careful study.

Canada has consistently failed to pay her transport bill. The history of Canadian railways has been a history of an attempt on the part of governments to evade facing economic laws. Subsidies, land grants, and guarantee of securities have been employed freely to encourage railway building and to form a justification for a system of extremely low, and in some cases statutory, fixed rates on basic commodities. This policy, in a broad way, could only be effective so long as the development of natural resources proceeded at a rapid pace, and in point of fact, no small portion of railway revenue has in the past been drawn from the capital invested in railway development itself, and from capital investments incident to the development of natural resources as distinct from the production of basic commodities resulting from that development. This

being the case periods of business depression bear with particular force upon Canadian railways and serve to emphasize the fact that in the long run economic laws must be obeyed. The cost of transport must be met somehow and the failure to provide a rate structure adequate to pay for that cost can result in nothing except a situation in which private capital invested in railways must either be wiped out or be protected by general taxation. The situation calls for a courageous facing of facts, provision of rates high enough to pay the cost of service; equitably distributed and free from statutory limitations, permitting of adjustment to meet changing conditions together with control of competitive highway services to their economic sphere.

Finally, too much reliance must not be placed in any lesson taught by the present depression. As soon as times improve, public demands for additional railway construction will recur, and the railways in themselves would find it very hard to resist the pressure even if they were inclined to do so, and in like manner, cooperation between the railways forced upon them by pressure of events would not continue in hearty degree once that pressure was removed. There would seem to be a real need in Canada, dependent as she is upon the lowest possible transportation cost, for the creation of a budgeting and planning commission whose functions would consist of determining the advisability of railway extension and without whose approval no railway charter could be secured or public financing be done for railway purposes. This body might also be charged with the enforcement of cooperative economies such as

those outlined above and should be empowered to control uneconomic competition wherever it is found. The problem so far as it relates specifically to the railways, should be fairly easy of accomplishment, although it would involve the restriction of provincial and federal legislative powers. The suggested commission should be substantially a technical commission. It might consist of five members; a chairman appointed by the Federal government; a member nominated by the universities of Canada; the president of the Canadian Pacific Railway; the President of the Canadian National Railways, and the Deputy Minister of Railways and Canals. The enlargement of its scope to cover uneconomic highway transport would be a matter of great difficulty, and its activities in that regard would probably be advisory only.

Western Tour,
En Route,Ottawa to Vancouver,
Wednesday, December 9,1931

PRIVATE CONFERENCE

(Precis by Mr.Moxon)

The Chairman asked Mr. Fairweather to give details of Sir Henry Thornton's estimate of savings on operations in 1932, of $23,000,000. Mr. Fairweather agreed to look into this and give details as far as possible.

Mr. Fairweather then explained a study made by Bureau of Economics of National Railways on wheat growing in Canada. As a result of this study it appeared then (1921 circa) that the return on capital expenditure in Canada on railways would grow progressively less and a warning was given the government and railways at the time.

Flowing from this study it became apparent also that much development in railway construction would, on a strictly accounting basis, result in a debit. If all traffic originating on and ending on a certain branch line should be debited with all its main line costs attributable to carrying this freight, plus costs of operation of branch line and capital costs, there would be a loss, but by increased commerce of the nation in which the railways would share, the result would be different and the conclusion to be drawn even by the railway management would be that the expenditure on expansion was a proper investment.

Mr. Fairweather then read a paper prepared by him on railway building and the creation of national wealth in western Canada, as follows:

Railway transportation in the prairie provinces has added six billion dollars to the national wealth of Canada. For each dollar invested in railway transportation 5.5 dollars of new wealth has been created. The railway investment of $1,075,000,000 has resulted in additional determinable wealth of $6,000,000,000 distributed between the provinces as follows (1927 figures):

Manitoba	$1,572,000,000
Saskatchewan	2,463,000,000
Alberta	1,941,000,000
Total	$5,976,000,000

of which the chief items are:

Farm values	$2,843,000,000
Urban real property values	926,000,000
Forest development	250,000,000
Mineral development	122,000,000
Public utilities other than railways	125,000,000
Investment in commercial enterprise	272,000,000

The prairie provinces, being devoid of waterways capable of development into transportation avenues owe the creation of their existing wealth to the agency of railway construction.

Had there been no railways built, the wealth of the prairie provinces would be almost entirely potential, with little production of commodities and little or no opportunity value. The opportunity value of this vast territory for other than fur trading was set by the Hudson's Bay Company, the owner, at $50,000,000. If the term "wealth" be defined as "opportunity value" this owner's valuation is the most accurate fixation obtainable of the wealth of the prairie provinces before the intervention of railway transportation. There are no absolute criteria of either "wealth" or "value". Both are fluctuating and relative, being continually affected by the

"time-place" factor. A railway constructed into a new country does not at first create wealth. It creates opportunity. Justification of the railway must await the use of the opportunity, and in a pioneer country railway investment will be relatively great until use converts potential into actual values. Visualize what happens following the projection of a railway into virgin territory. Agricultural lands and natural resources are made available. Settlement follows. Farms are made. Minerals and forests operations commence. Villages come into being and grow into towns or cities. The use of opportunity creates trade which enters the arteries of world commerce. This trade reacts on all interjoined communities to the economic benefit of all of them and standards of living are gradually raised.

As criteria of the use of opportunity the ratio of the dollar invested in railway transportation to dollars of other determinable wealth will be taken on the basis that "wealth" at any given time will be the sum of

(a) The going opportunity value of land and natural resources

(b) The opportunity value of commerce as represented by invested capital

(c) Stocks of consumable goods and specie on hand.

Ratio of invested railway dollar to other tangible wealth

Year	U.S.A.	Western U.S.A.	Prairie Provinces
1890	-	1.4	-
1900	1: 8.2	1:4 .1	1:1.1
1912	1: 9.5	1:6 .2	1:5.3
1922	1:13.0	1:10 .9	1:6.5

This comparison shows that the prairie provinces have made a more rapid increase of use in the early stages than was

the case in the western U.S.A. and that during the period 1900-22 the rate of increase in use has been satisfactorily comparable.

Comparison with the U.S.A. as a whole and with the remainder of Canada, where in 1927 the ratio was 1:8, denotes the effect of a more diverse and mature economic development.

During the past eight years the Canadian National Railways has spent $46,777,000 in railway construction in the prairie provinces. This investment has made available approximately 7,000,000 acres of land previously unreached by transportation. A careful survey of these lands has shown that the average quality is at least as high as the average for the west and probably somewhat higher. It may be confidently asserted that through the use of these lands the national wealth of Canada will be increased by at least five times the railway capital investment, viz, $230,000,000.

Mr. Fairweather then produced penetration charts of branch line construction in western Canada.

Map I. 1916-1920, showed a minimum of penetration by either system

Map II 1920-1924, Canadian National branch line programme rejected by Senate - Canadian Pacific penetration about double of Canadian National.

Map III 1924-1927, Increased penetration by Canadian Pacific.

Map IV 1928, Results of this map not very serious encroachments.

Map V 1929, Serious encroachments by Canadian Pacific - development by Canadian Pacific small in comparison with building total - Canadian National encroachment smaller and development greater.

Summary - 1916-1930.

C.N. encroachments 3,570 square miles

C.P. encroaahments 10,375 " "

C.N. penetrated into C.P. territory undeveloped but ear marked for C.P., 100 square miles

C.P. penetrated into C.N. territory undeveloped but ear marked for C.N., 4,500 square miles

C.N. development, 19,655 square miles

C.P. development, 20,690 square miles.

Question then raised as to what extent this building might have been avoided if railways were cooperating. It was agreed that this would be attempted by Canadian National officials who would use their own judgment on what part of Canadian Pacific building should have been curtailed, that is, not on the basis that Canadian Pacific had built all their branch lines and Canadian National only had curtailed, but that each had curtailed in fair measure.

Mr. Fairweather agreed to have results of penetration maps typed, map by map, and then a summary.

Mr. Fairweather then, on a question by Commissioner Lorée, explained the high cost of coal in western Canada, which seemed to the Commissioner high in comparison with United States coal.

It was stated that bituminous coal veins were steeply inclined on mountain sides and not flat as in the National Railway mine in West Virginia. Hence mining costs are expensive by reason of sliding, etc., and running costs are say $2.75 to $3.00 in western Canada against $1.07 in Virginia. Coal mines are carrying too much capital burden in western Canada, about ten times too much.

In eastern Canada costs are up by reason of sub-

marine mining. The sub-bituminous coals of Coalspur district in western Canada are mined by steam shovel process and are only 60 per cent efficient as compared with bituminous coal, but mining costs are cheap.

Western Tour,
En Route, Vancouver,
Saturday, December 12, 1931.

PRIVATE CONFERENCE

(Precis by Mr. Yates)

The members of the Commission met in conference in Mr. Justice Duff's sitting-room at the Vancouver Hotel this morning at 10.00 o'clock.

The Chairman stated that there were two important things to be considered:

(1) What arrangements could be made to increase railway income and

(2) What reductions might be possible in expenditures.

As to increase of income the only suggestion that had been made was as to increase of rates. Various aspects of that should be considered. One was whether or not the present rates are just rates, and another equally important consideration was whether any increase of rates would yield perceptible relief in the way of increased income.

Then there might be a third question forced upon the Commission. That was whether such a course was not plainly a wholly impracticable course. They were hardly in a position to judge whether the existing rates are just rates or not. They had a sort of presumption arising out of the legislation passed in 1897, suspended during the war and afterwards renewed, and so on. It occurred to Judge Duff that if they were to consider that question they could get some assistance from the Board of Railway Commissioners which, in the last few years had gone over the whole question

of rates and the existing rate structure was based on these conclusions. Those conclusions were governed, of course, by certain statutory limitations.

On the other side, as to expenditure, there was of course the very obvious thing that operates in the future, namely, the very large amount of that unproductive expenditure which was the result of premature railway development. He found that that was pretty well understood by the intelligent business people of the community.

As to the immediate future, taking the railways as they stand now as separate systems and examining the thing on that basis and considering what, if any, prospect there was of relief. He supposed what they would have to consider mainly was the matter of duplication of construction and services and to what extent the arrangement of existing lines, or the reduction of services on existing lines, is practicable, and what results in the way of economic advantages could be expected to be ascertained from them. They had Mr. Warren at work on a report along those lines which would be available in a day or so. They could get a similar report from the Canadian Pacific officials. His own idea was that after they had developed the matter to a certain point they should secure an independent expert or experts to go over the matter and report to the Commission upon it. There was, of course, the matter of hotels and steamships also requiring to be examined -- a comparatively simple thing.

From the point of view of consolidation, an hypothesis they could not leave out of view, Mr. Fairweather had already estimated a saving of $50,000,000. Judge Duff doubted very much if he had taken into account the traffic

changes which might be put into effect under such an arrangement, but at all events he thought they should have that prospect examined and examined in detail. He should think there also, that, in order to get information upon which it would be safe to proceed, it would be desirable to have a report upon that possibility also from independent experts.

Lord Ashfield thought that at this stage of the investigation it would be well to consider the manner in which the work was being carried out by the Commission's Secretariat, They should satisfy themselves in the first place that the information they were seeking by questions and by interviews, etc., was in such form as would give to the Secretariat the information that would be needed later on when the report was being prepared. They could not of course cover the ground again. It seemed to him, therefore, of the utmost importance to be certain that they were exhausting all sources of information as they went along.

His second point would be that having obtained all of that information, either by question or by documents, to make certain that the work of the Secretariat was being carried out in such a way as would secure to the Commission at a later stage in suitable form the vast amount of information which will have been collected by the time this part of the Commission's work has been concluded. Work of this kind, he knew by bitter experience, involved very careful cross indexing to make certain that any question they might ask might be answered by ready reference to every subject and to every question. There would be many quotations and they should be very certain that any quotation they used would be absolutely accurate and verifiable by reference.

On the question of information which they

were seeking what appealed to him was that they should get all information they could directed towards the question arising out of the operation of two separate systems of railway. His view would be that the more evidence they could get which was directed to showing that-quite independent of: any idiosyncrasies of individuals in connection with railway undertakings - there was inherent in a situation of that kind the absolute necessity for expenditure on a scale badly out of proportion to what would be the case if they had a single system.

He could quite conceive the management of the Canadian National coming into the situation at a later date to that of the Canadian Pacific and might find itself compelled, at greatest possible risk, to engage in the expenditure of vast sums of money in an effort to build up and establish the national system of railways. The more he saw, the more it was established in his mind that there was diminishingcriticism to be directed towards the management of the Canadian National Railways. In his own mind any impression of that nature became less personal each day and more directed towards the fundamental principles inherent in a situation of that kind.

His next point was that whatever the recommendations of the Commission were, he thought they must in the main rest upon the question or point that it was absolutely impossible, because of the two systems involving dual control, to avoid an expenditure running into vast sums both in respect to capital and of operation, beyond what would be the cost if they were to imagine a single system effectively managed and controlled.

Mr. Justice Duff remarked that it was much the same

as to what saving could properly be made by the suppression of duplication consistent with the maintenance of the integrity of the National system as an efficient organization.

Lord Ashfield's next point was as to whether they should have to consider appointing a body of experts to review the question of expenditures, and, to a certain extent, of operation which arises out of the present situation. He did not know what Mr. Loree would say, but frankly, his own view would be this; that it was absolutely impossible for any outside group of experts to forecast with any degree of accuracy what the savings might be if the systems were brought together. There were things that might be done but which he thought experience would show are wholly impossible, because they were faced with a situation that already exists. Also, and they could not altogether evade it, public opinion as expressed to Parliament had to be considered. Then too they would find over and over again experts would refer to possible economies if certain capital expenditures were engaged in, and this thing and that thing were done. If such questions were entrusted to a body of experts it might take a vast amount of time.

There was another form of information which a body of experts might prepare for the Commission based upon a limited form of reference which the Commission would have to draft for them. Within that limited reference a body of experts could be of great value to the Commission. The report of the Commission would be of great magnitude and present an historical importance.

After canvassing the possibility of a suitable intermission to enable the Secretariat and experts to prepare their memoranda, Lord Ashfield observed that the

conditions under which the investigation was being carried out must be accepted as abnormal. They were so wholly removed at the present time in the world of industry from anything approaching what might be looked upon as a normal situation that he was tempted to think that they should find it necessary, that having defined clearly and unmistakably the policy which the Dominion should pursue with respect to this transport problem, that that policy would not be possible of accomplishment until some very considerable period had elapsed; that there must necessarily be involved in the decision of the Commission questions of vital importance not only to the citizens of Canada but to those who have invested their money in the railway undertakings whether in the form of bonds or capital in the Canadian National system or capital invested in the Canadian Pacific. For the Commission to visualize any scheme whereby a fair value could be placed upon this investment would be absolutely impossible because it would involve such colossal sacrifices. Machinery would have to be set up to bring to a standstill the questions of capital expenditure, all steps proposed must be in harmony and synchronize with the final plan. The purpose would be to carry these undertakings on a sounder basis with a view to effecting economies and reaching a decision more nearly approximating a position where those values could be established.

He would emphasize again the point he almost began upon. His mind was hardening against any implication that fault could be found with either administration in respect to those excessive expenditures either upon capital account or of service, but was being directed more and more to the belief that inherent in a situation of this kind, that kind

of expenditure was absolutely unavoidable and if that were true it would have, as the Commissioners would all appreciate, an immense significance.

Mr. Loree referred to the construction of the Canadian National hotel at Vancouver as representing, not the considered judgment of the railway, but a political compromise with the community.

He suggested that the railway officers should give the Commission a review of the situation in 1913 as compared with the situation in 1931. The railways had had an enormous increase in wage scale during that period and since 1918 there had been a considerable invasion of the field of management by organized labour. The increased pay of railway employees since that time had been from 200 to 300 per cent, while the cost of living had increased only from 30 to 40 per cent. On his own road they had been endeavouring in the most drastic way to effect economies. They had torn down 22 per cent of the station buildings on the property. Station forces in 1931 as compared with 1913 had decreased by one half, but the pay of that decreased staff was nevertheless more than double that of the station staff of 1913.

Personally, he had been wondering whether relief could be looked for along the line of a unified structure; whether that would not remove the incentive to change and improvement which was vital to railway progress. He referred to the enormous improvement in the mechanics of railroading, the introduction of great economies, the comparison of hydro-electric energy as contrasted with the use of steam. Only 6 per cent of the potential power of coal was secured in operation. Whether a unified industry would work in a problem such as that presented in

Canada he did not know. He had at first thought of the possibility of dividing the railroad mileage differently than at present. It was now divided on the basis of ocean to ocean operation east and west by both lines. He wondered whether they could be unified in the east, say, as far as Fort William and Port Arthur, and again from Fort William west of there. That, of course, presented very great difficulties. Conceivably there might be three systems set up instead of two.

Another confusion had developed in the last few years. Compensation formerly fixed on the cost of the service rendered, was now in danger of being based on the value of the service rendered, as determined by the Interstate Commerce Commission. Personally, he felt there was no possibility of government operation of railways in the United States. He believed people would be much better off under private ownership. After discussing the Canadian National position with Mr. Warren the previous evening, he had reached the conclusion that the Canadian National management was reasonably alert and efficient but struggling against a handicap too great to be over-come.

Mr. Loree referred to the recent increase in rates in the United States in which connection the increased revenues of the stronger lines were to be utilized to assist the revenues of necessitous companies. This rate increase would cost the anthracite producers $5,000,000, and they could not increase their price relatively, so would have to absorb the entire increase.

Cancellation of all labour contracts was threatened. This would be a serious matter with the running trades, but not so serious with the mechanical trades. His own

company was endeavouring to eliminate the running trades from the field of management. Twenty-three arrangements of that nature had been in effect,now only four remained. They were prepared to guarantee present wages to the running trades for one year. In any event, they were in for a very long period of readjustment. He mentioned that Mr. Warren seemed confident that the running trades would accept the finding of the conciliation board after the matter had gone through the usual steps provided to deal with such matters, and that wages on Canadian railways would be reduced by 10 per cent.

As to the inquiry of the Royal Commission, he did not consider that they had as yet sufficient data to make up his mind, and he was giving the Commissioners merely his general impressions relative thereto.

Sir Joseph Flavelle expressed the belief that the basic factor of the Canadian situation lay in the fact that Canada was not intended by nature to be one community. The natural trend of trade in the east was between the Maritime Provinces and the New England States. In Quebec and Ontario, similarly, the natural tendency was to trade with adjoining States in that region. Then came the stretch of wooded and rocky country north of the lakes which had been likened by the late J. J. Hill to the construction of a railroad tunnel so far as the production of revenues was concerned. Then there were the Prairie provinces whose natural association was north and south with the Dakotas and the corresponding States running across to the mountains. Then they had three mountain ranges interposing themselves between the Pacific Coast of Canada and the Prairie provinces.

Sir Joseph recalled the promises of railway connections east and west given at Confederation, the construction of the Intercolonial in the Maritime Provinces, the Grand Trunk difficulties under London management and the welcome extended to the Canadian Pacific Railway as a relief from the tyranny of overseas management. He dealt with the conditions under which the prairies were settled when the homesteader was able to secure employment on railway construction to assist him to get established. He spoke of the hatred engendered by C.P.R. monopoly which led to the granting of charters which resulted in the construction of two other transcontinental railways. In that way over-expansion came about, followed by the taking over of the Canadian Northern, the Grand Trunk Pacific and the Grand Trunk Railways.

Sir Joseph then sketched the financial efforts of the Dominion during and subsequent to the war. The Dominion of Canada had never borrowed a dollar, except from the banks, until 1915. Then came the war with its financial difficulties. In 1915 the Minister of Finance asked the bankers of Canada whether they thought that the government could borrow $50,000,000 from the Canadian public. The bankers did not think so. Some said they might try, and in any event the bankers would underwrite fifty per cent of it. This Victory loan resulted in $106,000,000 being subscribed. The government then proposed to loan $50,000,000 to the Imperial Government to be expended in Canada for supplies, and of the $106,000,000 subscribed, $103,000,000 stuck and $53,000,000 were placed at the disposal of the Imperial Government to be expended in Canada for war purposes. Sir Joseph stated that eventually $1,600,000,000 were borrowed

in Canada for war purposes, $700,000,000 of which had been loaned to the Imperial Government for war purposes, on account of which sum the Imperial Government had paid to Canada about $300,000,000 after the war.

The Canadian railway situation was the outcome of pressure of the Canadian people at a critical time. That pressure unwisely acceded to has placed upon the country the burden which it was now carrying. When the railways fell into difficulty ten or more years ago, the Minister of Finance had opposed receivership. His view was that the country should take over the securities and see that the money invested in the railways was afforded protection, and that had been done in the case of all the securities involved, with the exception of certain Grand Trunk stocks, the value of which had been by agreement referred to arbitration. In that particular Sir Joseph contrasted the practice on the other side of the line where investors in railway securities usually were called upon to take heavy losses in the liquidation of railways encountering financial difficulties.

He noted that Lord Ashfield apparently found his mind running towards the inevitability of a good deal of the expense which had taken place because of the circumstances, and the inevitability that there should be possibly a single system of railways. His own mind has been running steadily over the thought that a single operation of these great systems of railway as a monopoly in Canada was, for the reason given by Mr. Loree with all his railway experience, a danger that would lead to a great deal of trouble if they should commit to any single executive the immense problem of the management and operation of those railways

as a single system from the Atlantic to the Pacific. However, it was unwise to say at this early date that anything was impossible. For that reason, he was prepared to wait and to be as careful as possible in his contacts, and in his ordinary conversations to avoid any statement which might be taken as indicating any particular conclusion. He thought that a body of experts to prepare information with respect to this extraordinary railway situation in Canada would be impossible outside of the two great railway organizations themselves. However, he felt the Commission should no doubt get very valuable assistance from a checkup by an expert familiar with railway practice, of the various proposals as might be developed in the course of their investigation.

Mr. Beaudry Leman expressed the belief that at this stage or shortly the Commissioners should make an effort to endeavour to circumscribe the extent of their investigation under certain headings and, after looking at those headings, they should decide the extent to which the investigation should go. The terms of reference were so wide that they might well venture into the whole political situation in this country. In doing so, they might easily run counter to provincial autonomy and become involved in considerations outside the scope of the inquiry. The same situation existed in the financial field. The provinces might make commitments which would affect the federal financial situation and the finances of the country as a whole.

Then he asked whether the Commission was going to venture an investigation in the realm of immigration, that is to say, whether two or three or four hundred thousand settlers a year should be brought into Canada. That had an

immediate bearing on our railway situation. He was doubtful whether they could enter into a study of all the considerations which should be taken into account. However, he did suggest a study of two points:

First, what are the possible immediate remedies, leaving open as far as possible the question of the general policy of this country. Up to the present, his mind had been running simply in the direction of what might be done immediately to secure as much relief as is possible.

Secondly, to examine the possibility of a solution which would, as far as possible, preserve the future by not taking a stand as to either government ownership or private ownership. He knew there was a respectable body of opinion in this country that might think differently and thought they should be careful to seek information based on experience, rather than possible theories which each might have as to this or that method. In that line he thought they should visualize the fact that though a great deal of money had been spent either on branch lines or main line construction, with the possibilities of the country as they were, he thought it might fairly be said that, while the bulk of that construction might be premature, a considerable portion of it ought to be preserved and reserved for the future as far as possible, meanwhile seeking the most economical method of management and operation to tide over the next ten or fifteen years when others will consider the matter with much more information than the Commission will have before it at the present time.

Dr. Murray felt that the problem was due to geographic and political factors. He thought they should keep in mind at least two or more alternative proposals and keep

them in view in the assembling of the data which will be placed before the Commission. There was no doubt whatever but that the problem would ultimately have to be decided by political considerations.

Dr. Webster submitted that so far as he was personally concerned, he should do more thinking at the present stage. While he had certain views and would probably change his views, he would like to know more about the problems before giving expression to them. He felt that the judgment of the three more experienced members of the Commission -- Lord Ashfield, Mr. Loree and Sir Joseph Flavelle -- should guide those of the Commission who were merely laymen and could only exercise what common sense and judgment they might have. He thought they should keep any views they had in the background until they had more complete information than was now available. There were certain possibilities. The railways might remain as they are, subject to an endeavour to effect economies; they might be merged under government control, or merged under private control. He realized the difficulties of all three proposals and preferred to say nothing more at the present time.

On the point raised by Lord Ashfield, Mr. Moxon assured the Commission that every effort would be made to make the record as complete and as readily available as possible. Under conditions of continuous travel it would not be possible to elaborate these records except as the shorthand reporters were able to do so in the course of the journey. Once the Commission got through with its travels, care would be taken to organize a staff sufficient for whatever work should be found to be necessary.

In deference to a desire expressed by Lord Ashfield,

it was decided to have the official stenographers take a note of the conferences between the Commission and the various railway officials. The Commission then discussed the extent of the interval which should elapse between the conclusion of its present western trip and the visit to the Maritime Provinces, it being finally agreed that it would be unwise to attempt to resume between Christmas and New Years, and it was understood that the Commission should set out again from Montreal sufficiently early on Sunday, January 3rd, as to make it possible to get to Saint John for a session on Monday, the 4th instant.

It was decided that it would be unnecessary to visit Fredericton, the New Brunswick provincial capital, in view of the fact that members of the provincial government could meet the Commission at Saint John. From Saint John, the suggestion was that the Commission should proceed to Halifax, and from Halifax should return to Moncton, the headquarters of the former Intercolonial Railway, and now the headquarters for the Atlantic region of the Canadian National system. Should it be considered advisable or necessary, representatives of the Prince Edward Island government might possibly attend at Moncton. From Moncton, the Commission will probably return to Levis by way of the Transcontinental railway, and should it visit Quebec, could, if desired, return to Montreal by the Canadian Pacific for whatever sessions might be necessary at that point.

(Page 100 follows

Western Tour,
En Route Vancouver-Calgary,
Saturday, December 12,
1 9 3 1.

PRIVATE CONFERENCE

THE CHAIRMAN: Perhaps, Mr. Fairweather, you had better deal generally with the matter of hotels, having before you the compilation which you have already supplied to us.

MR. FAIRWEATHER: I regret, Mr. Chairman, that our records went astray while we were in Vancouver and have not yet been found. Consequently at this time I am without the detail records that I should like to have under my hand. I think, however, if one of these books is available I can go ahead.

THE CHAIRMAN: Very well. It is statement J in Receipts and Expenditures.

The following exhibits were filed:

Exhibit N[a], Statistical information requested by Sir Joseph Flavelle.

Exhibit N[b], Receipts and Expenditures, Canadian National Railways, January 1, 1923 to December 31, 1930.

Canadian National Railways Hotels.

MR. FAIRWEATHER: Under miscellaneous in these Receipts and Expenditures on page 3 there is a statement showing the investment account of the hotels and camps and a condensed income account drawing down to a net result. That net result represents the correct accounts of the hotels, except that it does not include depreciation. I may say that whatever views I may have with regard to depreciation as applied to a railway at large, I certainly do not hold those views with regard to a hotel enterprise.

THE CHAIRMAN: In other words, it should appear in the hotel accounts.

MR. FAIRWEATHER: Yes; the reason being that your investment is concentrated into large units and you do not have the advantage of the diversity factor which applies generally.

Now, I have estimated in a general way what the depreciation would amount to. Of course, it is frankly a guess because one has very little experience upon which to go, but I have suggested $1\frac{1}{2}$ percent for the buildings and 4 percent for the equipment and furniture taken as a unit. I realize that furniture depreciates at a more rapid rate than that, but equipment, that is, the mechanical part of the hotel equipment, depreciates at a much slower rate.

LORD ASHFIELD: $1\frac{1}{2}$ percent means a life of approximately sixty-six years.

MR. FAIRWEATHER: No sir. With money at 5 percent --

LORD ASHFIELD: Excuse me. There is no money at 5 percent because you have a deficit.

MR. FAIRWEATHER: From that point of view, sir, the theory of the depreciation reserve is that you either depreciate on a straight line basis or on a sinking fund basis.

LORD ASHFIELD: The only point is this. One of two things must happen: You must either increase this $7,000,000. if you are going to provide for depreciation on a 5 percent basis; or you must provide for your sinking fund on a straight line basis. Is that not right?

MR. FAIRWEATHER: Well, we will take it as right.

SIR JOSEPH FLAVELLE: Do you think of it at all as amortization?

MR. FAIRWEATHER: Sir Joseph, on a sinking fund basis it would be thought of that way; but His Lordship raises the point that since the hotels are a deficit enterprise there can be no possible amortization, and I am forced to agree with him. If the money is to be invested in the hotel enterprise then His Lordship is undoubtedly right. But I feel by the same token that it really makes very little difference if you are a deficit concern, because in that case even your operating expenses are funded by somebody, otherwise you would go bankrupt; somebody has to find the money to keep you afloat; and once you are in the red it is arguable that since it is either borrowed money or proprietors money that keeps the enterprise afloat, depreciation is just simply a matter of keeping your profit and loss account straight. Is that not correct, sir?

LORD ASHFIELD: You are perfectly right. I do not think there is any dispute between us. It all resolves itself into a question of amount. If you have a profit, and out of that profit you make provision for depreciation, obsolescence, or whatever you wish to call it, the amount you lay aside out of your profits year by year would be less in that event than would be the case if you have no profits out of which to make provision for this reserve. In other words, it is a very simple matter; really your profit and loss account in the event of your operating the undertaking at a loss is denied the advantages of the interest upon that part of your net income which you would invest outside the business for the purpose of meeting your depreciation charges.

MR. FAIRWEATHER: There is no difference of opinion on that at all, Sir.

SIR JOSEPH FLAVELLE: Pardon me, I think there is

a fundamental difference. If I go into the hotel business I do so for the purpose of discharging a duty in connection with the railway business, that duty being a complex one: To secure a return on the hotel as an enterprise, if that be possible, or to assess the value of it as an auxiliary which, although a losing service itself, on the whole contributes a profit by reason of the auxiliary service performed, namely, the securing of passengers for the road. But I must not fool myself by thinking that any physical property that is used does not deteriorate, and when I am endeavouring to convey to my chief who is responsible for the operations a true picture of the hotel property, whether the operation represents red or black ink figures, I must show depreciation. Whatever difference of opinion there may be about depreciation in railway accounts, which we discussed fully the other day, in my judgment there can be no question that as to auxiliary properties such as hotels depreciation should be charged on the buildings, furnishings and equipment. But you observed a little while ago that because it was a bankrupt thing there is really nothing especial about it.

MR. FAIRWEATHER: You have done me an injustice, Sir Joseph, in that particular.

SIR JOSEPH FLAVELLE: I am sorry.

MR. FAIRWEATHER: I said it was academic only in this sense, that in a deficit concern there can be no cash reserve of any kind, and that therefore the calculation of depreciation would be directed to informing the proprietor of just the extent of his loss. I feel I could not put it so well as you have done, Sir Joseph, but I am in complete agreement with you in regard to hotels.

SIR JOSEPH FLAVELLE: That is to say, if you were putting depreciation in which you say has not been put in, would you put it in just the same whether it was a red ink or a black ink hotel?

MR. FAIRWEATHER: Yes, sir.

LORD ASHFIELD: Shall we take the total amount of money invested in your hotels?

MR. FAIRWEATHER: Yes, sir. The total investment in our hotels at December 31, 1930, was $22,174,701.76.

LORD ASHFIELD: Book value?

MR. FAIRWEATHER: That, sir, represents the book value.

LORD ASHFIELD: Why did you arrive at a figure of sixty-six years?

MR. FAIRWEATHER: Your Lordship, I figured that from the experience in the Interstate Commerce Commission with regard to their attempts to depreciate buildings the pure obsolescence feature of depreciation, the portion which could not be made good by repairs, would not exceed 1½ percent on a sinking fund basis. If you choose a straight line basis that would correspond to about 2½ percent.

LORD ASHFIELD: I suggest we take 2½ percent. What would be the amount at 2½ percent?

MR. FAIRWEATHER: The buildings run to $15,880,822.05.

LORD ASHFIELD: Now we will take 2½ percent on the $15,880,000. How much is that?

MR. FAIRWEATHER: Do you mind if I speak in approximate figures?

LORD ASHFIELD: Quite so.

MR. FAIRWEATHER: That would be close to $400,000 a year.

LORD ASHFIELD: What would be the total amount of the depreciation fund on a straight line basis at 2½ percent per year to date?

MR. FAIRWEATHER: From the inception of the hotels?

LORD ASHFIELD: In round figures.

MR. FAIRWEATHER: Well, Your Lordship, the difficulty is that with the records which I presently have I do not know the exact age of a good many of these hotels.

LORD ASHFIELD: Could you make some estimate? Won't that do for the purpose?

MR. FAIRWEATHER: I can make an estimate; I have not as yet made one. I confine myself to the calculation of depreciation accruals in this eight year period.

THE CHAIRMAN: Depreciation what?

MR. FAIRWEATHER: Accruals.

LORD ASHFIELD: Then it goes further back than that?

MR. FAIRWEATHER: Yes, there would be considerable accrual of depreciation in the prior period.

LORD ASHFIELD: What has happened to that?

MR. FAIRWEATHER: We have never set it up.

THE CHAIRMAN: Depreciation in relation to hotels does not appear in the books at all?

MR. FAIRWEATHER: No, sir.

LORD ASHFIELD: What has happened to losses prior to 1923?

MR. FAIRWEATHER: Losses come into our general income and are absorbed as part of our deficit. Of course, this depreciation being a non-cash item does not affect our cash position, but it would affect our profit and loss balance.

THE CHAIRMAN: What would be the character of the losses?

MR. FAIRWEATHER: There would be losses on operation, sir.

THE CHAIRMAN: I did not mean that. You are not talking of property losses?

MR. FAIRWEATHER: I am not speaking of property losses.

LORD ASHFIELD: I think it would save considerable time if we asked Mr. Fairweather to prepare a statement for us which will disclose:

1(a) The total amount of money invested in lands for hotel purposes on the Canadian National system;

(b) Buildings;

(c) Furnishings and equipment.

MR. FAIRWEATHER: We have that, sir.

LORD ASHFIELD: Then show:

2(a) Losses to date on the operation of the hotels;

(b) Losses to date, including depreciation on a $2\frac{1}{2}$ percent basis of the book value of the buildings;

(c) Losses to date on the equipment.

Is it 5 percent?

MR. FAIRWEATHER: I suggest on an average 4 percent, but subject of course to that being a compound percentage.

LORD ASHFIELD: It cannot be. Don't you renew that from time to time? Is that really a depreciation item at all?

MR. FAIRWEATHER: Which, the equipment and furnishings?

LORD ASHFIELD: Surely that must be renewable year by year.

[illegible]

MR. FAIRWEATHER: There you come into that strange shadowland between obsolescence and depreciation. I am simply trying to meet your Lordship's views.

LORD ASHFIELD: But in the past as you have renewed equipment due to losses and breakage it is paid for. I think that might be left out.

THE CHAIRMAN: Leave out equipment?

LORD ASHFIELD: Yes. Leave that out and give us this further statement: Estimate as far as you can what these items which you have before you now will be when your hotel programme has been completed. Will you also furnish us with an estimate so far as you can of what the losses will be on operation, including depreciation upon the hotel investment account in the future years?

MR. FAIRWEATHER: Yes, sir.

THE CHAIRMAN: Do you want that in bulk or related to individual hotels?

LORD ASHFIELD: I only want it as a total amount. I cannot see that any purpose will be served by splitting it up. It is only a question of policy. It is the total amount that is of interest.

SIR JOSEPH FLAVELLE: Might I suggest, Mr. Chairman, referring for a moment to what has been said in everyone of our meetings, for it is of profound importance in every one of our operations. For instance, dealing with factory machinery, I would take off 10 percent for depreciation, and charge it to charges as well as keep the machinery in repair. Where you carry on a hotel there comes a period when you have to refurnish. If you charge all that to the charges of the year, and show a deficit on the year by year renewals, then you have met the point His Lordship raises. If, on the

other hand you follow a very common practice and do not charge depreciation, when you come to a renewal the cost goes to capital investment, it does not go into the charges of the year. Not one operator in fifty does it that way.

MR. FAIRWEATHER: The Canadian National Railway does. We have spent truly enormous sums of money in renovating our hotels and charged that to operation.

LORD ASHFIELD: In any event, in arriving at your net figure with respect to operation you make provision for renewal of furnishings and equipment?

MR. FAIRWEATHER: Yes, sir.

COMMISSIONER LOREE: You have heard me speak of the Ladies College in which I am interested. We charge for depreciation 3 percent on buildings and 15 percent on furniture, equipment and so on. Last year we wrote down the capital account by $85,000 and invested the money, not in those particular items but in the purchase of property. You think we were at liberty to do that?

SIR JOSEPH FLAVELLE: Yes. I am not thinking at all that in providing liberally for amortization the money will be set aside in a separate fund. I am thinking it may go back into the enterprise. But you are quite clear that you are keeping up the property by charging into the property what is the proper depreciation charge, because I think when property suffers by use it is just as much a charge as wages.

MR. FAIRWEATHER: Quite right.

THE CHAIRMAN: I understand you to say, Mr. Fairweather, that in your books depreciation is charged to operating expenses. I am speaking of furnishings alone. Renewals and so on are paid out of operating expenses?

MR. FAIRWEATHER: In our books as property becomes obsolescent and is renewed the cost is charged to operating expenses. For instance, if a bath-room becomes obsolete in type we renew it in an improved type and charge the cost to operating expenses; the same with carpets and with furniture. Mr. Mallory just mentions to me now that we are incurring a large expenditure of that character at the Macdonald Hotel at Edmonton and the Brandon Hotel.

MR. MALLORY: We have quite a little programme of recarpeting and bed replacements which will be charged to operating expenses.

THE CHAIRMAN: That would not enter into the capital account for the eight years?

MR. FAIRWEATHER: No. sir, we are not pyramiding our capital.

THE CHAIRMAN: Does that cover the point?

SIR JOSEPH FLAVELLE: Yes. Before you leave the subject of hotels, Mr. Fairweather, might I ask what you do with the interest on the investment?

MR. FAIRWEATHER: The interest on the investment appears in the interest on the funded debt of the system, and therefore serves to swell the deficit of the system. I may say for the information of the Commission that I drew out a statement showing separately the interest on the hotels, and credited that interest back to the railway operations, so that you could get a proper picture of the hotel operations and of the rail operations.

SIR JOSEPH FLAVELLE: But you do not use your interest as a charge against rail operations?

MR. FAIRWEATHER: Oh yes.

SIR JOSEPH FLAVELLE: You do as against net revenue?

MR. FAIRWEATHER: Yes, as against net revenue.

SIR JOSEPH FLAVELLE: But not as against net operation?

MR. FAIRWEATHER: We do charge interest, and in every fresh venture of capital we always consider the interest charge.

SIR JOSEPH FLAVELLE: To be charged where?

MR. FAIRWEATHER: Against the operation.

SIR JOSEPH FLAVELLE: You paid $1,158,000 of interest on the hotels, which you show on the statement you gave me. This is the one you furnished in reply to my question. What do you do with that $1,158,000 interest on the invested capital?

MR. FAIRWEATHER: That interest in our system of accounts would be found in our interest on funded debt.

SIR JOSEPH FLAVELLE: Mr. Chairman, to me this is a very important distinction.

THE CHAIRMAN: Yes.

SIR JOSEPH FLAVELLE: Operating a railway there is a well established practice, which I accept because it is followed by all railways and financial companies in relation to interest. Railway men according to the standard methods of accounting recognize as operating expenses only a part of the expenses, and they talk of net revenue before they have all their charges set down. They deal with maintenance of way and other things that can be kept in repair and call those charges operating expenses. But now we come to a supplementary thing, namely, hotels. Surely when we divert a body of capital away from the ordinary railway operation, for the purpose of ascertaining the value of these hotels to the system there should be charged against hotels interest on the capital.

MR. FAIRWEATHER: It is.

SIR JOSEPH FLAVELLE: No. You keep it all right, but you do not show it on the profit and loss sheet. You tell me it goes into the funded debt.

MR. FAIRWEATHER: We do that now, sir.

SIR JOSEPH FLAVELLE: There is $1,158,000 of interest. What was done with that?

THE CHAIRMAN: It is on page 3.

SIR JOSEPH FLAVELLE: In this statement -- which is not the same as the one I have before me, but is the same as the one I lent you -- you do charge interest on capital invested in hotels and show a loss of $7,162,672 on operation. Are these statements in accordance with your usual practice, showing the hotels operated at a loss of $7,162,672 during the year?

COMMISSIONER LEMAN: Not during the year; it is the eight year period.

MR. FAIRWEATHER: There has been a change in our practice, Sir Joseph. The point you raise is one that in my opinion is very important. There was a time when we were investing capital in outside operations and not charging against them the interest. The result was that the profit and loss sheets of those outside operations were distorted, and the men charged with those enterprises over estimated their value. We have changed that and currently we charge interest against them. They do not like it very well, but in any event we are doing it. Now when we prepare our system income account those interest charges are all what we call inter-system eliminations, otherwise of course they would conflict with the funded debt statement of the parent company. Have I made myself clear?

SIR JOSEPH FLAVELLE: Yes. That is exactly the thing I challenge.

MR. FAIRWEATHER: For the purpose of each man's individual operations he is charged interest. That interest is in our funded debt, and when we carry these properties into our consolidated income account in order to show what has happened we naturally have a number of inter-company eliminations. For instance, the Canadian National Railways may advance money to a subsidiary company, say to the Niagara, St.Catharines & Toronto Railway, and the income account of the St.Catharines Railway will show that interest.

SIR JOSEPH FLAVELLE: Debited against it?

MR. FAIRWEATHER: Debited against it. Now the operations of the railway company, if we carried through the complete accounting, would show a credit item representing the accrual of interest against the St.Catharines Railway, and there would also be a debit item representing its obligations to the public.

THE CHAIRMAN: What do you mean by the public?

SIR JOSEPH FLAVELLE: The funded debt.

MR. FAIRWEATHER: When we throw them together the inter-company debit and credit simply washed each other out, and you have left the interest on the funded debt as shown in the income account. But in recognition of the bad principle that the operators of subsidiaries were not being charged with interest on their capital, we have started to charge that interest against them.

SIR JOSEPH FLAVELLE: How long has that been in force?

MR. FAIRWEATHER: I believe it started about a year ago.

MR. MALLORY: Yes.

COMMISSIONER LEMAN: How would you distinguish as between the interest on your funded debt and the interest on government borrowings?

MR. FAIRWEATHER: We make no fundamental distinction at all. We charge interest on both, and it is shown in our income account on both.

COMMISSIONER LEMAN: I wanted to bring that point out to show that you took your interest into consideration whether it was derived from government borrowings or from funded debt.

MR. FAIRWEATHER: Yes, sir. And what is worse than that, we even charge ourselves interest for monies advanced to pay for deficits, which I think is an absurd principle.

SIR JOSEPH FLAVELLE: I agree with you entirely, I think that is wholly wrong. But let us get at the conclusion of this as it affects the presentation of your earnings. If you eliminate your interest charges from the debit side because you are going to wash them all out, and show them as against the funded debt, then you are going to show an increased body of earnings applying on funded debt, because you have taken out the interest as a debit charge and you show your hotels relatively and every other subsidiary enterprise no longer bearing its interest charges. Now, why not continue your separate organization and carry into your interchange balance sheet representing the whole the true position of each one of them and the earnings which accrue for the purpose of meeting that capital debt?

MR. FAIRWEATHER: I think, Sir Joseph, that would be a forward step. It would, however, complicate our accounting.

SIR JOSEPH FLAVELLE: It should not complicate the accounting at all. If you on the one hand say, "For the purpose of disciplining our people" -- which is the most valuable thing -- "we are charging them with interest on the investment, but they have not earned any money to pay that interest". Later when you come to present your accounts to the government you show that your earnings are earnings with the interest pulled out of those accounts so far as hotels are concerned and thrown into one single account.

MR. FAIRWEATHER: Yes, Sir Joseph, that is what we do. The other method I think would be preferable. It would show our railway's rail operations more favourably and the hotel operations less favourably.

SIR JOSEPH FLAVELLE: In other words, it is the truth.

MR. FAIRWEATHER: Yes, sir.

COMMISSIONER LEMAN: But you might be showing your railway operations improved through the deficit incurred in your hotel operations.

SIR JOSEPH FLAVELLE: That is a thing you cannot avoid in your books. But when it comes to deciding whether to carry on another hotel, it is important to know what is the story of the hotels you already have.

MR. FAIRWEATHER: In regard to that, as I said before, when venturing new capital we always debit that capital with interest charges and also with depreciation.

LORD ASHFIELD: Would it not be just as well to leave out the cents column in all these statistical financial statements prepared for the Commission? It only adds a lot of figures that mean really nothing at all to us.

SIR JOSEPH FLAVELLE: Yes.

LORD ASHFIELD: Is that agreed?

THE CHAIRMAN: Yes.

SIR JOSEPH FLAVELLE: For instance, in discussing your hotel policy and work your senior gave us an expression of his belief that the whole of the investment in the hotel properties, one being the hotel we visited the other day at Jasper, had been met by income derived and some $800,000 besides. In looking at your statement to me in relation to that I was in confusion as to how that occurred, Jasper having an investment of $2,576,000.

MR. FAIRWEATHER: Sir Joseph, would you like me to give you the details behind Sir Henry's statement?

SIR JOSEPH FLAVELLE: I should be glad to receive that. This statement shows you have red ink figures of $298,715 and interest charges of $128,000. It would take that a long time to absorb the capital out of the red ink figures.

MR. FAIRWEATHER: I made a study of that situation for Sir Henry. It is extremely difficult in general to trace to the railway the benefit of the hotel investments. We do not ask our hotel patrons whether or not they travel by our railway, but Jasper Park is unique in that you cannot get to it unless you travel by the Canadian National Railways.

LORD ASHFIELD: You place to the credit of this investment all of the passengers who go to Jasper Park?

MR. FAIRWEATHER: Yes.

LORD ASHFIELD: That is how you arrive at that net figure. You do assume that a passenger goes to Jasper Park and would not travel anywhere else on the Canadian National Railways? -- Which is a strong assumption.

MR. FAIRWEATHER: It is a strong assumption, but there is such a margin to allow for errors of that kind. While the argument should not be pushed to an extreme, I do believe it is a stimulus to travel. Briefly -- I will not read all of this, sir, -- after deducting the cost of direct advertising, the revenues accruing from movement of passengers to and from Jasper amounted to $4,678,000. That is the rail revenues, it has nothing whatever to do with the hotel. Then I estimated the additional cost to the railway of carrying that traffic was $745,000, made up of additional car mileage and train mileage and special train and dining car service. That left about $4,000,000 of traffic which we claim was stimulated.

SIR JOSEPH FLAVELLE: For one year?

MR. FAIRWEATHER: No, that was for the period.

SIR JOSEPH FLAVELLE: Then you take from that $4,000,000 the loss for operation and the interest, and you deduct that from the capital cost of the property, and say you have made $100,000?

MR. FAIRWEATHER: That is just a way of expressing it.

SIR JOSEPH FLAVELLE: Quite. Of course, it is perfectly legitimate, Mr. Chairman, taking the hotels as part of the railway enterprise, that credit should be given for the increase of traffic that comes to the railway because the hotel is there.

THE CHAIRMAN: Certainly.

SIR JOSEPH FLAVELLE: There is room for a tremendous difference of opinion as to how much of that traffic was drawn by the hotel, or how much just stopped off and staid at the hotel because they heard of it. However,

Page 118 follows.

Sir Henry did take cognizance of the interest and of the loss of operating the hotels, and you in your turn made an attempt to estimate how much should be credited to the hotel. You say in your judgment that during that time $4,500,000 worth of railway tickets were sold that otherwise would not have been sold if the Jasper Hotel was not there.

THE CHAIRMAN: I thought you said that included all the passengers who stopped off, and then you deducted the cost.

MR. FAIRWEATHER: I simply said to what extent that would be discounted.

THE CHAIRMAN: Your figure of $4,000,000 is a gross figure?

MR. FAIRWEATHER: Yes, sir.

COMMISSIONER WEBSTER: Are you distinguishing between passengers who stopped at Jasper Lodge and those who stopped at the other hotels in Jasper?

MR. FAIRWEATHER: No. These are only tickets that are sold to and from Jasper station.

COMMISSIONER WEBSTER: Must you not distinguish in order to attribute the proper share to the Lodge?

MR. FAIRWEATHER: There would be nothing there if we had not put up Jasper Park Lodge.

COMMISSIONER WEBSTER: So far as the railway is concerned, the other hotels get some of the benefit.

MR. FAIRWEATHER: But they only came in after our Lodge was established.

THE CHAIRMAN: You say that is business produced by the Lodge?

MR. FAIRWEATHER: Yes.

THE CHAIRMAN: Then you assume all those tickets were

for Jasper Park, and you deduct the cost of travel?

MR. FAIRWEATHER: Yes, sir.

THE CHAIRMAN: You have not made any estimate really as to how much deduction you ought to make in allowances for other factors?

MR. FAIRWEATHER: No, sir, I have not; but as I have said to His Lordship, the disparity is so great that you could discount the thing 50 percent and you would still have a handsome situation.

SIR JOSEPH FLAVELLE: That is fair; it is only a question of proportion. What is the investment in the

hotel at Vancouver? I think you were under the impression, Mr. Chairman, that the hotel grew out of a commitment of the Canadian Northern. I understand that $3,500,000 was the extent of the commitment under the Canadian Northern arrangement as worked out.

THE CHAIRMAN: You are familiar with that, Mr. Fairweather. You might state what it is.

MR. FAIRWEATHER: Yes. I hardly think Sir Joseph has fully realized the extent of those commitments. The Canadian Northern made an agreement with the City of Vancouver whereby it got certain concessions in Vancouver, but --

THE CHAIRMAN: Those concessions really meant the handing over of certain land to you; that is, the land was transferred to you in fee.

MR. FAIRWEATHER: Yes, sir.

THE CHAIRMAN: These were lands from the City of Vancouver and the Department of the Provincial government?

MR. FAIRWEATHER: Yes, sir. The Canadian Northern in turn had undertaken very heavy obligations; they were under

contract to build a station of a certain magnificence and a hotel, and instead of running on the surface they were supposed to construct a tunnel. They were also under obligation to fill the False Creek area.

THE CHAIRMAN: The whole area?

MR. FAIRWEATHER: A certain portion of it, sir. Of course you get into the question of debits and credits, because if you filled False Creek you would be creating a value naturally.

THE CHAIRMAN: Or was the agreement just to fill that part of False Creek which was conveyed to you?

MR. FAIRWEATHER: It was just the part which was conveyed to us, as I understand it. But in the whole it was a very substantial thing. Now, while I have a general knowledge of the situation, I have not the detailed knowledge sufficient to lay before you at this time.

THE CHAIRMAN: Do you know whether in fact title was conveyed to the Canadian Northern?

MR. FAIRWEATHER: I could not say definitely, but I have with me Mr. Gzowski, who negotiated with the City the doing away of the old agreement and substituting for it the new. It is my impression from what he says to me that if we had been held to the letter of our contract the cost of the Canadian National Railways would have been a very substantial sum. It runs in my mind it was a matter of $15,000,000.

SIR JOSEPH FLAVELLE: Will you and Mr. Gzowski and Mr. Roberts collaborate together? Yesterday I heard one of your officers make such a statement as you make, and I heard it corrected. I wonder whether the correction is right or not.

MR. FAIRWEATHER: Is that satisfactory?

THE CHAIRMAN: Yes. We can get on to the steamships now.

Canadian National Steamships on the Pacific Coast.

LORD ASHFIELD: It begins with 2J and ends with various tables dealing with the Canadian Government Merchant Marine.

MR. FAIRWEATHER: That operation of course was a war enterprise of the Canadian government.

THE CHAIRMAN: It began in 1918.

MR. FAIRWEATHER: But it was distinctly a war measure and it was turned over to us for operation.

THE CHAIRMAN: Where do those ships operate?

MR. FAIRWEATHER: Our chief services at the present time are intercoastal services between Vancouver and Montreal, and between Montreal and Australia; then we have a service going down to the South American ports. That I think about completes the services we have with the C.G.M.M.

THE CHAIRMAN: The investigation of this portion of the government ships as such does not strictly come within the order in council. Shipping in Canada we have to deal with. On the other hand --

SIR JOSEPH FLAVELLE: They are part of the operating expenses.

LORD ASHFIELD: It might be useful to the government if they had a summary of all of their obligations in respect to transport. We may have to make a note of this.

SIR JOSEPH FLAVELLE: You are thinking that under our reference we have not the right to do it in relation to the private corporation?

THE CHAIRMAN: No. The order in council is limited to

transportation and shipping in Canada. The Trans-Atlantic steamships of the Canadian Pacific Railway, for example, are not included as a substantive part of the inquiry. On the other hand I should think it likely that it might be a matter for consideration as to whether it would be right to call the attention of the government to some feature of this. If this is being operated at a loss, there is something that goes into the national accounts, and it may be that we should go into it.

LORD ASHFIELD: We shall get rather close to it I think, Mr. Chairman, when we come to deal with the financial position of the Canadian Pacific Railway. The Canadian Pacific steamships are an auxiliary source of income or loss, as the case may be, and therefore will come into our report at some phase or other. We might deal with those too in a general way.

THE CHAIRMAN: That was what I had in mind when I mentioned it. It is a little different from the hotels, and from the Canadian National steamships as such; that is, the steamships plying between Vancouver and Victoria.

SIR JOSEPH FLAVELLE: Similarily with the Canadian Pacific.

THE CHAIRMAN: Yes.

LORD ASHFIELD: In my reading of this statement and the statistics which have been prepared the question that presents itself to my mind, and it is in the form of a question to you, is this: Does the information which has been prepared include the results of the operation of those services as a whole to date?

MR. FAIRWEATHER: Yes, sir.

LORD ASHFIELD: Therefore they are complete, except

that there is again raised this vexed question of depreciation.

MR. FAIRWEATHER: Not with regard to the steamships, sir.

LORD ASHFIELD: I was going to ask this: As I see this statement you appear to have made provision for it?

MR. FAIRWEATHER: Yes, sir.

LORD ASHFIELD: By writing down the tonnage value of the fleet $10 a ton.

MR. FAIRWEATHER: No, sir, that was never done so far as the Canadian Government Merchant Marine is concerned. It is a very involved subject.

LORD ASHFIELD: Perhaps you will explain it then.

MR. FAIRWEATHER: I hardly feel myself competent to deal with the subject in extreme detail; it is something for a trained accountant. But generally speaking the fleet was purchased at extremely high prices, and during the operations of course there were deficits, but they were not very great. The depreciation, however, on this enormous cost --

SIR JOSEPH FLAVELLE: War cost.

MR. FAIRWEATHER: Yes, war cost, created a very bad profit and loss statement, and at various times attempts were made to have a revaluation of the fleet to clean the balance sheet in that manner. That was never done except as regard boats which might be sunk or sold or transferred to the West Indies service.

LORD ASHFIELD: You say might; which were sunk you mean.

MR. FAIRWEATHER: Yes.

SIR JOSEPH FLAVELLE: In that case you charge the loss of the boat directly into the operations of the company?

MR. FAIRWEATHER: As I understand it, Sir Joseph, it is tied up to the matter of insurance. We will only insure our own fleet to a value, I think, of something like twenty or twenty-five dollars a ton; anything beyond that is simply taken care of by the government. But whenever a boat passes out of the consolidated balance sheet of the Canadian Government Merchant Marine, the accrued depreciation on that boat is credited against the depreciation reserve; consequently the consolidated balance sheet does not represent at all the total situation. The matter was gone into fully at the last session of the House of Commons committee, and included in the proceedings of the committee is an exhibit showing the total cost to the people of Canada of the Canadian Government Merchant Marine venture with all the book-keeping situation taken care of on a uniform basis.

SIR JOSEPH FLAVELLE: That was something like $50,000,000.

MR. FAIRWEATHER: It was more than that I am afraid.

COMMISSIONER LEMAN: It was $77,347,000.

MR. FAIRWEATHER: Yes, something like that. But that of course is just the Canadian Government Merchant Marine. If the Commission would desire to interest themselves in the detail of that, I think preferably it should be put before you in the form of a considered and written statement. Shall I do that?

THE CHAIRMAN: I think that will be better.

SIR JOSEPH FLAVELLE: Of course, we must discriminate in this particular instance between an enterprise under the control and directed by directors of the Canadian National Railway system, and an enterprise operated by them for the government of Canada and instituted by the government of

Canada.

THE CHAIRMAN: Yes, it stands in a different position.

MR. FAIRWEATHER: May I add to what Sir Joseph has said, that Sir Henry Thornton has repeatedly told the Parliamentary Committee in Ottawa that the Canadian Government Merchant Marine had no value to the Canadian National system as such, and it was purely a matter for the government to decide whether it had any exploratory trade value to the country. So far as he was concerned he said he would be very glad to be relieved of the responsibility of administering it.

COMMISSIONER LEMAN: Does the Canadian National Railway charge any amount to the Canadian Government Merchant Marine for overhead and supervisory expenses?

MR. FAIRWEATHER: No, sir. The C.G.M.M. has of course its own supervisory officers.

COMMISSIONER LEMAN: So the Canadian National Railway does that free of cost to the government?

MR. FAIRWEATHER: Yes, sir.

COMMISSIONER LEMAN: Which you would not do for a private company?

MR. FAIRWEATHER: I should say not.

Canadian National West Indies Steamship Company.

THE CHAIRMAN: The West Indies service is a matter of treaty.

MR. FAIRWEATHER: The origin of the Canadian National West Indies Steamship Company lies in the trade treaty negotiated between the West Indies and Canada. Under the terms of that treaty the colonies and Canada agreed to certain reciprocal tariffs and made provision by subsidy for an adequate steamship service. It was an obligation on the

Dominion government to supply this service. I am now speaking from my own knowledge. They cast around to find a commercial steamship company which would give the quality of service deemed essential under the treaty and handle it for a reasonable subsidy.

(Page 135 follows).

They obtained bids, and they were appalled at the cost; so they thought, seeing that they had an instrument in the Canadian Government Merchant Marine and the Canadian National Railways already familiar with steamship operation, that they might carry on this service at a cost to themselves less than any subsidy they would have to pay a private enterprise. They requested the Canadian National Railways to prepare a proposal showing what the anticipated costs would be on capital account, what the anticipated traffic would be, and matters of that kind. Following considerable negotiation the Government decided to create a company, this Canadian National West Indies Steamship Company, with the stock vested in the Minister of Finance and entrusted for the purposes of operation to the Canadian National Railway. That is the genesis of that service. Again so far as the Canadian National is concerned it is of no value particularly to us as a railway enterprise.

LORD ASHFIELD: May I interrupt to ask you this question now: When this treaty was concluded, who became responsible for the number and type of vessels to be put into the service?

MR. FAIRWEATHER: It was all fairly specifically set forth in the trade treaty.

LORDASHFIELD: There is no obligation in that respect attaching to the Canadian National Railways?

MR. FAIRWEATHER: Not at all, sir.

COMMISSIONER LOREE: When you say the West Indies, who were the other parties to the treaty?

MR. FAIRWEATHER: Jamaica, Barbadoes, Windward Islands, Trinidad, British Honduras, etc.

COMMISSIONER LOREE: Including Bermuda?

MR. FAIRWEATHER: Yes sir.

LORD ASHFIELD: Where is the statement dealing with this question -- the results of operation of the subsidized service to the West Indies?

MR. FAIRWEATHER: It is in that eight year statement.

LORD ASHFIELD: The statistical information, or the other one?

MR. FAIRWEATHER: The statistical information.

LORD ASHFIELD: I suggest that these exhibits be numbered or indicated by letters in alphabetical order, so that we can readily identify them.

MR. FAIRWEATHER: Yes -- the information supplied in reply to Sir Joseph's questionnaire can be marked "A", and the eight year book, which is the receipts and expenditures, can be marked "B".

LORD ASHFIELD: We are now on "A".

SIR JOSEPH FLAVELLE: Did you follow any line of inquiry as to seeing what would have happened if the Dominion Government had accepted the offer of various people to establish the service, in contrast to what did happen? Are these statistics available?

MR. FAIRWEATHER: No sir. I can only say this, that I have general knowledge that the people of Jamaica particularly were very keen to have the operations carried on by the Dominion Government; they were distrustful of private enterprise. The situation in Jamaica that forms the background of this whole matter is very confused. The Jamaica Government felt that the United Fruit Company was strangling the life from the banana producers of Jamaica,

and they were influenced very directly by a desire to curb the activities of the United Fruit Company when they entered into this trade treaty. They wanted and would be satisfied with nothing less than some form of direct control.

SIR JOSEPH FLAVELLE: Have you the operating results of that service?

MR. FAIRWEATHER: Yes sir, you will find the income account in book "A".

LORD ASHFIELD: When did the operation of this service begin?

MR. FAIRWEATHER: In 1929. In that year it had a net income loss of $1,117,000. That includes depreciation.

SIR JOSEPH FLAVELLE: But outside of interest?

MR. FAIRWEATHER: Oh, that includes interest.

LORD ASHFIELD: Interest on the bonds?

MR. FAIRWEATHER: Yes sir.

LORD ASHFIELD: How is the depreciation on the vessels arrived at -- $227,000?

MR. FAIRWEATHER: It is about two and a half per cent.

LORD ASHFIELD: Two and a half per cent straight line?

MR. FAIRWEATHER: Two and a half straight line. The depreciation in 1930 was $290,000, on an investment of $9,800,000.

LORD ASHFIELD: To what account is that loss carried?

MR. FAIRWEATHER: That loss is carried to a profit and loss balance sheet of the Canadian National West Indies Steamships, Limited, and each year is submitted to Parliament and the money is drawn down from Parliament to provide.

THE CHAIRMAN: It does not go into the Canadian National accounts at all?

MR. FAIRWEATHER: No, not the Canadian National; it is a separate operation.

LORD ASHFIELD: Has any estimate been prepared for future years on this investment?

MR. FAIRWEATHER: I hardly gather your question, sir.

LORD ASHFIELD: I mean this: you have a net income loss for 1930 of $1,362,000. That includes depreciation of $288,000 and provides for all the interest charges upon the capital invested. The loss of $1,362,000 for that year was provided for out of government funds?

MR. FAIRWEATHER: May I explain there, sir?

LORD ASHFIELD: Excepting depreciation.

MR. FAIRWEATHER: Excepting the interest, too -- that is, the interest to the Government. All that we would draw down from the Government would be the cash necessary to carry on the activities.

LORD ASHFIELD: As I see it, Mr. Chairman, all that the Commission will be interested in will be the information that is prepared now, which I assume is going into our report, together with a forecast, made by whoever is responsible, for the operation of this Canadian National West Indies Steamships, Limited, for the next few years, just as we have asked for it for the railways.

THE CHAIRMAN: It is not a substantive part of the matter we are to inquire into.

LORD ASHFIELD: It is a further burden falling upon the Government in respect of steamship services.

THE CHAIRMAN: Outside of Canada.

LORD ASHFIELD: That is right.

COMMISSIONER LEMAN: It comes into the financial picture, though.

THE CHAIRMAN: Yes, but I presume all the finances would automatically come into the financial picture. Here is a treaty they have entered into with the West Indies for a steamship service which is not a steamship service in Canada. It is perfectly true that the Canadian National operate it for the Government.

SIR JOSEPH FLAVELLE: But it should not be included in their figures; they are not responsible at all.

THE CHAIRMAN: No; we could not properly investigate, for example, the operation of the line.

SIR JOSEPH FLAVELLE: How are you paid for your services?

MR. FAIRWEATHER: As managers, sir?

SIR JOSEPH FLAVELLE: Yes.

MR. FAIRWEATHER: We get no pay at all; we are philanthropists.

SIR JOSEPH FLAVELLE: Excellent.

THE CHAIRMAN: It is not a source of revenue to them at all?

MR. FAIRWEATHER: No sir.

THE CHAIRMAN: Neither a source of revenue nor a source of disbursement.

LORD ASHFIELD: Let us see how far this altruistic view goes.

SIR JOSEPH FLAVELLE: Through the currency of the accounts you provide the cash?

MR. FAIRWEATHER: We act as bankers, sir.

SIR JOSEPH FLAVELLE: And at the end of the year the Government assumes the loss.

MR. FAIRWEATHER: We have an accounting.

SIR JOSEPH FLAVELLE: And they take off your hands any liability for it?

MR. FAIRWEATHER: Yes sir.

THE CHAIRMAN: Now we come to your own steamers, which do form part of the picture.

MR. FAIRWEATHER: Yes sir -- that you will find in "A"; it is the last of soction J.

THE CHAIRMAN: The Pacific coast steamers are the only Canadian National steamships you have, are they not?

MR. FAIRWEATHER: No sir.

THE CAAIRMAN: What have you?

MR. FAIRWEATHER: As subsidiary companies we have quito a number of steamships and of car ferries. We have operating on the Great Lakes a fleet of steamships running from Depot Harbour to Chicago and Milwaukee; that is known as the Canada Atlantic Transit Company. Then we have running from London to New York a line of steamships called the Central Vermont Transportation Company, and we are jointly interested with other interests in car ferries across Lake Ontario and Lake Michigan.

THE CHAIRMAN: They come into your railway accounts?

MR. FAIRWEATHER: They come into our railway accounts.

THE CHAIRMAN: Just in the same way that a freight car does?

MR. FAIRWEATHER: Well now, I have misled you, Mr. Chairman. The Canada Atlantic Transit Company is treated as a separately operated property, but it is reflected in the railway account.

SIR JOSEPH FLAVELLE: Of course your car ferries are an essential part of your railway account.

MR. FAIRWEATHER: Yes sir.

SIR JOSEPH FLAVELLE: The others are car ferries on the Great Lakes?

MR. FAIRWEATHER: The car ferries on the Great Lakes are operated partly as separately operated properties and partly as railway accounts -- it depends. The ferries operating to Windsor are carried in the railway accounts. Those operating across Lake Ontario -- say to Cobourg; that is a separate company, and the same is true of the ferries operating across Lake Michigan.

THE CHAIRMAN: That is the Canada Atlantic Transit Company?

MR. FAIRWEATHER: No sir, that is a new company; it is a ferry company, and we previously had a company called the Grand Trunk Milwaukee Car Ferry Company -- Sir Joseph would have knowledge of that. We have recently consummated an agreement with the Pennsylvania railroad whereby the two companies, the Canadian National and the Pennsylvania, own that fleet of ferries jointly under another corporate title. But our west coast services are distinct and separate, and are known as the Canadian National Steamships.

COMMISSIONER LOREE: What railroads does that car ferry feed -- the Wabash?

MR. FAIRWEATHER: No sir, it connects with the Grand Rapids and Indiana.

COMMISSIONER LOREE: At Muskegon?

MR. FAIRWEATHER: Yes sir, and takes the traffic down to Fort Wayne, where it connects with their main line.

THE CHAIRMAN: The Canadian National Steamships operate on the west coast?

MR. FAIRWEATHER: Yes sir. The figures are in volume A, immediately following the yellow pages of the book -- section 2J.

LORD ASHFIELD: Could you summarize in any way the information you have here?

MR. FAIRWEATHER: I think so, sir.

LORD ASHFIELD: Could you summarize it now, thoroughly, or do you want to do it in the form of a statement?

MR. FAIRWEATHER: I think we could gain time by doing it in the form of a statement.

LORD ASHFIELD: On exactly the lines we have suggested in respect of other investments?

MR. FAIRWEATHER: Yes sir.

LORDASHFIELD: Dealing with the operating results, depreciation, and forecast for the future?

MR. FAIRWEATHER: Yes sir.

SIR JOSEPH FLAVELLE: Did they operate for a season?

MR. FAIRWEATHER: This serice has been operated for years and years and years.

SIR JOSEPH FLAVELLE: That is the one north.

MR. FAIRWEATHER: The only thing was that during the boom times of 1928 we got carried away with enthusiasm and went into it on a much larger scale.

SIR JOSEPH FLAVELLE: Intending to go down to Seattle?

MR. FAIRWEATHER: Intending to go back into the triangular service, The Grand Trunk Pacific originally had been in the triangular service, and when they got into financial difficulty they withdrew. Then when the

Canadian National was formed it continued the operations, but continued them merely as a costal operation to Alaska, with certain ports of call like Prince Rupert and with a subsidiary service to the Queen Charlotte Islands. During the boom period it was decided to go back into the triangular service.

THE CHAIRMAN: What do you call the boom period?

MR. FAIRWEATHER: I should say, sir, 1928.

THE CHAIRMAN: You took the decision then to build these ships?

MR. FAIRWEATHER: Yes.

THE CHAIRMAN: How long did it take to build them?

MR. FAIRWEATHER: About a year, I think. We got the authority in the budget.

THE CHAIRMAN: The year given here is 1930.

MR. FAIRWEATHER: Yes.

THE CHAIRMAN: They were added to the fleet.

COMMISSIONER WEBSTER: Was it considered that the traffic warranted them?

MR. FAIRWEATHER: At that time -- of course you are not asking my personal opinion?

LORD ASHFIELD: No, we are asking what the policy was.

MR. FAIRWEATHER: The policy was they felt there was business enough to warrant the construction and operation of these boats.

LORDASHFIELD: So that the contemplated construction and operation of these boats was entirely a question of traffic needs?

MR. FAIRWEATHER: It was a question of traffic

needs, as it was seen.

SIR JOSEPH FLAVELLE: A competitive service so as to give to your passengers the same opportunity to go over your road that the Canadian Pacific gave to its passengers going over theirs -- a feeder to your road?

MR. FAIRWEATHER: It was supposed to be a feeder to the railway.

THE CHAIRMAN: But the Canadian Pacific service is very largely a local service -- I mean the Tri-City service. The old service was the Canadian Navigation Company; it was established when I first went to British Columbia. That was improved and finally taken over by the Canadian Pacific; I do not remember exactly when.

SIR JOSEPH FLAVELLE: I have come up from California at different times, and coming up to Seattle I have taken the Canadian Pacific steamers and the Canadian Pacific train -- it is all part of the common service.

THE CHAIRMAN: You come up from California on the California Southern.

SIR JOSEPH FLAVELLE: I come up from California by rail or by motor to Seattle and then take the Tri-City service from Seattle. Hence I think it reasonable that the Canadian National people should wish to give those who come up from California and wanted to cross the Canadian section of the continent an opportunity to go via the same road that they took from Seattle.

THE CHAIRMAN: My own personal experience in the years I lived there was that only a small portion of the traffic would be through rail traffic.

SIR JOSEPH FLAVELLE: Not a great deal; most of the people who travelled over the route came up for the purpose

of visiting British Columbia.

THE CHAIRMAN: Most of it would be local traffic between Seattle and Victoria, between Victoria and Vancouver, and between Vancouver and Seattle -- business men and so on.

SIR JOSEPH FLAVELLE: Oh, tourists too.

THE CHAIRMAN: Yes, tourists also.

MR. FAIRWEATHER: For your information, Mr. Chairman, I have a statement of tickets sold, and they amounted to $156,000 in a year.

THE CHAIRMAN: Tickets sold in what way?

MR. FAIRWEATHER: Well, interchange tickets between the Canadian National Steamship services and the Canadian National Railway.

THE CHAIRMAN: That would represent the traffic relating to the railway?

MR. FAIRWEATHER: Yes sir.

COMMISSIONER WEBSTER: Were these boats meant for freight as well?

MR. FAIRWEATHER: The boats were meant primarily for passenger traffic. They carry a small amount of freight, but it is not the service they were designed for. In the Alaska service and the Tri-City service, freight is no consideration of moment.

THE CHAIRMAN: They do carry automobiles extensively.

LORD ASHFIELD: If this steamship service was established less for the purpose of dealing with through traffic to and from the railway and more for the purpose of providing a steamship service between these various ports, I suppose your office would have looked into this question of traffic and reported on it to the President before the

service was established?

MR. FAIRWEATHER: Our office did look into it, sir.

LORD ASHFIELD: What was the report?

MR. FAIRWEATHER: My report was unfavourable.

LOBD ASHFIELD: Could we ask you anything further on it, in view of that?

MR. FAIRWEATHER: As you please, sir.

LORD ASHFIELD: What happened to your report?

MR. FAIRWEATHER: I do not know.

LORD ASHFIELD: It was passed on to the President?

MR. FAIRWEATHER: As a matter of fact, in that particular case the report was not made in as great detail as most of the reports of the Bureau of Economics. It was during Mr. Henry's regime -- that was my predecessor; and I was asked to look into this matter. I did look into it beiefly; I reported against it to Mr. Henry, verbally, and said that I could not see the expenditure was justified. That was the last I heard of it, and that was my contract with him.

LORDASHFIELD: You know nothing beyond that?

MR. FAIRWEATHER: I knew nothing beyond that until I was asked to make a study of an enlargement of a dock facility in Vancouver. I had thought that when this venture had been gone into, this dock situation had been taken care of. But I was out in Vancouver and I was asked to make a recommendation with regard to this dock.

THE CHAIRMAN: From whom do you get your dock facilities -- or did you get dock facilities?

MR. FAIRWEATHER: We owned a dock there, but it was a question of enlarging it. I made a report upon that,

based upon the fact that the question of policy had been determined, and I recommended certain enlargement of the dock. That is the total of my direct knowledge of it.

THE CHAIRMAN: Where is that dock -- how far east of the Canadian Pacific station at Vancouver?

MR. FAIRWEATHER: About a quarter of a mile, sir.

LORD ASHFIELD: Have you any knowledge yourself, directly or indirectly, which will explain why this steamship service was established although at the time the department responsible for preparing a report -- not advising, I appreciate that, but only preparing a report -- disclosed that it could not be profitable?

MR. FAIRWEATHER: I have some rather general knowledge as to that. There were certain matters which Sir Henry discussed with me before I came on this trip, and I asked him quite pointedly what his views were on this particular enterprise. This is about the situation: We had on the Pacific coast the nucleus of a fleet which was developing a fairly nice tourist business to Alaska.

THE CHAIRMAN: From where?

MR. FAIRWEATHER: From Vancouver, sir. It had gotten to a point where the boats were inadequate for the service; they were getting up in years and did not compare favourably with competing lines. We were being handicapped in that business. Sir Henry was very enthusiastic regarding the beauties of the Alaskan trip.

LORD ASHFIELD: Commercial beauties, or simply scenic beauties?

MR. FAIRWEATHER: The scenic beauties, sir; but he also had a very live realization of the commercial advantage

to Canada of the tourist business. As bearing upon this he asked me to look into the matter of tourist traffic in Canada. I made a report to him which perfectly amazed him, namely that the tourist business in Canada ranked next to our agricultural activities in point of national wealth -- ranked ahead of all of our manufacturing industries.

THE CHAIRMAN: In point of profit?

MR. FAIRWEATHER: No sir, in point of gross production.

THE CHAIRMAN: What do you mean by gross production?

MR. FAIRWEATHER: I mean this: if you take the external trade of Canada -- I am not talking now of internal trade --

THE CHAIRMAN: I thought you were speaking of the tourist business.

MR. FAIRWEATHER: Yes sir, but the tourist traffic is an external trade.

THE CHAIRMAN: What do you mean by gross production-- that is what I want.

MR. FAIRWEATHER: I mean, if you take our balance of trade with various countries; we export certain commodities of gross value, we import other commodities of gross value, and we export tourist services to a total gross value. Have I made my point clear?

THE CHAIRMAN: You mean gross receipts from tourist services?

MR. FAIRWEATHER: Yes sir.

SIR JOSEPH FLAVELLE: It is a little more than the receipts from the services -- that is to say, the tourist uses the railways, uses the roads, uses gasoline, buys merchandise.

THE CHAIRMAN: I am speaking of all of that as tourist services.

SIR JOSEPH FLAVELLE: Mr. Coats estimated the value of the tourist business last year at $275,000,000.

MR. FAIRWEATHER: In a year of depression.

SIR JOSEPH FLAVELLE: And that is one factor entering into our exchange with United States -- ordinarily they pay a good deal of it in American money. Unfortunately they will not do it this year.

MR. FAIRWEATHER: I amazed Sir Henry with the report when I gave him the perspective of our national trade and showed him how that tourist business had grown. In the years before the war, Canada's tourist business did not exceed $15,000,000 per year; in 1928 it exceeded $300,000,000 per year. Now, Sir Henry, having that in mind, felt that the provision of a first class steamship line engaged in attracting the tourist business would be a good national development. He did not look forward to the service being very profitable in itself. He felt that if he collected enough direct revenue to pay for the expenses, enough would have been accomplished to justify the service; because the other intangible values -- intangible so far as the railway is concerned but very tangible so far as the country is concerned -- would justify that expenditure. That same policy has influenced him in his expenditures upon radio, his expenditures for a considerable part of the luxury service afforded on passenger trains and the hotels. Whether it is good policy or bad policy is another matter.

LORD ASHFIELD: That explains it.

MR. FAIRWEATHER: But personally I feel that it

should have been a national undertaking. That is my own personal view.

THE CHAIRMAN: Now, what in point of fact did you do with regard to ships. You got three ships?

MR. FAIRWEATHER: Yes.

THE CHAIRMAN: How many of those ships were used on the Alaska run?

MR. FAIRWEATHER: Of course they came to us, sir, one at a time.

THE CHAIRMAN: I mean, at any given moment.

MR. FAIRWEATHER: I do not think in the last year's operations we ever had more than one. I have the full detail here.

THE CHAIRMAN: Well, in a sentence or two you will give me the picture I want, and we will go into the details afterwards. Where did you pick up your Alaska passengers with that one ship?

MR. FAIRWEATHER: At Vancouver. We also ran a triangular service.

THE CHAIRMAN: Some passengers might come by the triangular service and transfer to this ship?

MR. FAIRWEATHER: Yes.

THE CHAIRMAN: So that you had these two ships in the triangular service. You told us about the Alaska service; what about the triangular service in which you employed two of these ships? They were, as I understand it, sister ships. Mr. Warren, I believe, said there was no difference between them.

MR. FAIRWEATHER: No difference.

THE CHAIRMAN: What about the two ships in the triangular service?

MR. FAIRWEATHER: It is tied up to this other service, the Alaska service, because our operating men figured out --

THE CHAIRMAN: How many months a year, approximately, does the Alaska service last?

MR. FAIRWEATHER: I should say about six months, perhaps, or five -- possibly five.

THE CHAIRMAN: My own impression would be -- I may be quite wrong about it -- that that tourist service would not extend over a period longer than three or four months -- that would be about the maximum. Of course there was a service to Prince Rupert.

MR. FAIRWEATHER: Yes.

THE CHAIRMAN: If it covers only a limited period I have great difficulty in seeing how you could tie up, as you phrase it, the two ships you were using in the triangular service throughout the whole year.

MR. FAIRWEATHER: Oh, you could not.

THE CHAIRMAN: You cannot do it?

MR. FAIRWEATHER: The answer to that is you could not do it.

THE CHAIRMAN: You were anticipating an expansion of traffic on the triangular service -- is that it?

MR. FAIRWEATHER: Sir Henry's remark in regard to that was that there would be enough traffic there for both the Canadian Pacific and the Canadian National after a period of development to warrant his going into the service, and he told me that -- it was just one of those cases where his judgment was bad.

THE CHAIRMAN: Were the dock facilities sufficient in Victoria and Seattle, or did you have to enlarge them?

MR. FAIRWEATHER: We had to repair the dock at Victoria; we had to make very considerable alterations to the dock at Vancouver, and we added somewhat to our capital investment in the Seattle dock.

THE CHAIRMAN: Were the boats physically capable of carrying freight?

MR. FAIRWEATHER: No sir, not in any volume.

COMMISSIONER WEBSTER: Do the Canadian Pacific boats carry freight?

MR. FAIRWEATHER: I cannot speak with regard to them. I do not think they do on the triangular service.

THE CHAIRMAN: They used to carry freight at one time.

MR. FAIRWEATHER: I do not think they carry it in any volume, sir.

COMMISSIONER LEMAN: Where would I find a financial picture for this service, taking into account interest and depreciation similar to the statements which you have given in reference to the Canadian Government Merchant Marine?

MR. FAIRWEATHER: You will find it in this statement, book "A", page 2J.

THE CHAIRMAN: The operating results are given on the last page of J.

MR. FAIRWEATHER: I might say with regard to these boats that no depreciation is charged, although it should be.

COMMISSIONER LEMAN: And no interest.

SIR JOSEPH FLAVELLE: They cost about $9,000,000, did they?

COMMISSIONER LEMAN: $2,167,000, $2,158,000, $2,206,000.

THE CHAIRMAN: Mr. Warren said yesterday it would be about $7,000,000.

MR. FAIRWEATHER: The cost of the three boats was $6,532,391.

SIR JOSEPH FLAVELLE: Did that furnish them - provide the equipment?

MR. FAIRWEATHER: Yes.

COMMISSIONER LEMAN: What about my other question with regard to operating results?

MR. FAIRWEATHER: I have a statement here which gives the operating results, but they are included in our railway results. In 1930 the loss on net income account was $440,000.

THE CHAIRMAN: They were put into operation in 1930, were they?

MR. FAIRWEATHER: These new boats were, sir.

THE CHAIRMAN: I am speaking of the new boats. How long were they in operation?

MR. FAIRWEATHER: I have the full detail -- it is a complicated picture, because they broke down; they had turbine trouble; one boat was pulled out and another put in; one boat would make two trips -- it is almost impossible, sir, to answer that question in a word.

THE CHAIRMAN: Well, you could work that out for us.

SIR JOSEPH FLAVELLE: When you say $400,000, ~~ix~~ is that for the three ships?

MR. FAIRWEATHER: No, that is for the whole fleet -- that is everything.

THE CHAIRMAN: You had a profit in 1929 of $31,000, and you brought these boats in.

SIR JOSEPH FLAVELLE: That is purely a net operating situation, I suppose -- the difference between what you received from the service and what it cost you to operate it?

MR. FAIRWEATHER: Yes; for the year 1930 the loss was $440,000.

COMMISSIONER WEBSTER: No interest on that, and no depreciation?

MR. FAIRWEATHER: No.

SIR JOSEPH FLAVELLE: The interest on the $6,000,000 would be $300,000.

MR. FAIRWEATHER: Unfortunately, Sir Joseph, we have a total of about $10,000,000 in those -- we have other boats.

SIR JOSEPH FLAVELLE: You have twenty-four vessels have you not?

MR. FAIRWEATHER: On the Pacific coast? Oh no, not that many.

LORD ASHFIELD: Let us go back for a moment to the question of policy. I call your attention to the last statement but one in volume "A" -- 2(k)1 -- the top line, railway operating revenue, the total for the eight years from 1923 onwards being given. Would you tell me where that figure is divided between passenger earnings and earnings from freight?

MR. FAIRWEATHER: It is divided in great detail in the annual report for each year.

LORD ASHFIELD: It is not in this volume?

MR. FAIRWEATHER: It is not in this volume. If it is desired that these revenues be divided we could prepare a statement, but we could not do it on the train.

THE CHAIRMAN: Is it in the blue book?

MR. FAIRWEATHER: For any one year -- they are not collective.

LORD ASHFIELD: What do you mean by any one year?

MR. FAIRWEATHER: The annual report for any one year would give it.

LORD ASHFIELD: You have not all the annual reports?

MR. FAIRWEATHER: Yes sir, we have all the annual reports, but the difficulty there is this: that hardly a year has gone by without some change in the properties comprising the Canadian National Railways. The Board of Directors have at one time or another, either as a result of statutory provision or as a determination of policy, excluded or included certain properties in the main operations and have included or excluded certain properties from the separately operated properties. The result is that the annual report figures from year to year, unless one has access to the intimate detail accounts, will not agree with these figures which have been submitted to the Commission. The figures we prepared for the Commission are on a uniform basis so that the one year is properly comparable with another.

SIR JOSEPH FLAVELLE: The net of the whole would not be affected?

MR. FAIRWEATHER: The net would never be affected; it is just a difference in the method of showing the details.

LORD ASHFIELD: You have said that the policy of the Canadian National Railways was to encourage tourist traffic, and for that purpose they spent large capital sums on the building of hotels, providing steamship services,

luxury services on the railways, radio, recreation grounds, if one might describe Jasper Park by that term --

THE CHAIRMAN: Intellectual stimuli.

LORD ASHFIELD: Yes, that is probably the more classical expression. The encouragement that was given to the National Railways to engage in that form of capital expenditure, involving,as it must have done, a very large operating cost, must have been reflected entirely in the passenger earnings of the Canadian National Railways. It might therefore be of interest to the Commission to know to what extent from 1923 onwards the passenger earnings of the Canadian National Railways were increased. Could you let me have that?

MR. FAIRWEATHER: Yes sir, and may I say a word at this time?

1LORD ASHFIELD: Oh yes, certainly.

MR. FAIRWEATHER: I will say, sir, this, that our passenger revenues, far from increasing, have been steadily decreasing, the reason for that being highway competition. But --

SIR JOSEPH FLAVELLE: One of the reasons.

MR. FAIRWEATHER: That is the chief reason, sir, in fact I think the only reason.

THE CHAIRMAN: Highway competition?

MR. FAIRWEATHER: Highway competition, using the word in its widest sense.

THE CHAIRMAN: Are you excluding the general depression and the disposition of people not to travel?

MR. FAIRWEATHER: Well, exclude that.

THE CHAIRMAN: I should think so.

MR. FAIRWEATHER: I cannot agree with his lord-

ship --

THE CHAIRMAN: You do not think the results of encouraging tourist traffic to which Sir Henry Thornton was looking forward would be entirely reflected in the passenger service?

MR. FAIRWEATHER: No sir.

THE CHAIRMAN: Because you think he was treating this thing not merely as a railway agency but as a national agency?

MR. FAIRWEATHER: Yes sir, and so far as the railway was concerned --

LORD ASHFIELD: This is a new point; let us pursue it a little further. If what you say now is true, that the advantages of this policy of tourist traffic were not reflected in the passenger receipts of the Canadian National Railways alone, in what other direction would it benefit the Canadian National Railways?

MR. FAIRWEATHER: In this way, sir; in the first place there would be a direct benefit by the increase of long haul passenger traffic.

LORD ASHFIELD: But that would be reflected in the passenger receipts.

MR. FAIRWEATHER: That is so; to that extent, sir, there would be a direct benefit. Indirectly, however, there would be this benefit: the money left in the country by tourists would act very directly as a stimulation to trade and industry in the country. I happen to come from a province in Canada that depends very largely upon the tourist traffic.

THE CHAIRMAN: You are a Nova Scotian?

MR. FAIRWEATHER: Yes; I was brought up in a tourist

town when I was a boy. The railway there directly got only a moderate amount of passenger traffic, but owing to the fact that that town lived on the tourist business the railway did benefit indirectly to a marked degree. For instance, we bought our clothing with the profits that we made on the tourist business, which meant freight haul on the textiles.

THE CHAIRMAN: Rightly or wrongly, you say Sir Henry Thornton conceived it to be part of his duty as President of the National Railways to incur these expenditures, not only with the object of increasing passenger traffic on the railway, and so on, but with the object of increasing the national revenue -- I mean the revenue of the people -- with the object of indirectly helping the railway and everybody else.

MR. FAIRWEATHER: Yes sir, that is a correct statement.

LORD ASHFIELD: May I ask you this further question -- of course you can only speak of your own knowledge in answering it: Did the administration of the Canadian Pacific Railway share this view?

MR. FAIRWEATHER: They spent $48,000,000 on hotels.

LORD ASHFIELD: When did they spend that $48,000,000?

MR. FAIRWEATHER: In this eight year period.

SIR JOSEPH FLAVELLE: And on their steamships.

MR. FAIRWEATHER: On their steamships they spent a very large sum of money.

LORD ASHFIELD: So far as you know that too was their policy?

MR. FAIRWEATHER: Well, may I say a word with regard to that? Of course I really think, sir, it is a

question that I should only speak of very generally.

LORDASHFIELD: You need not at all unless you feel you would like to.

MR. FAIRWEATHER: The Canadian Pacific Railway bought a subsidiary company down in Nova Scotia, and after exploring every avenue in an attempt to make that railway prosperous they decidedthat the only way it could be done would be to build a chain of tourist hotels, and they therefore built a tourist hotel in Yarmouth, another in Kentville, another in Digby, and one in Halifax.

THE CHAIRMAN: Are they on the line of railway?

MR. FAIRWEATHER: They are on the line of railway.

THE CHAIRMAN: The object was to make the railway prosperous?

MR. FAIRWEATHER: Yes sir, by making the country prosperous.

THE CHAIRMAN: The Canadian Pacific built a hotel down at Del Monte; they had a line of railway that was not paying and they made the railway pay as a result of building the hotel there. But what you are suggesting is something very different from that. The buying of these , ships arose out of a desire to increase the general tourist revenue of the country, which would have a favourable effect on the revenues of the railway.

MR. FAIRWEATHER: Well sir, if the country was prosperous the railway would be prosperous, in that sense. If the people of Canada had money to spend then there would be more commercial activity and the railway would benefit in that way.

LORD ASHFIELD: They would benefit only in propor-

tion to the interest the Canadian National Railways had in the situation as a whole.

MR. FAIRWEATHER: Yes.

LORD ASHFIELD: And therefore if this policy is not pursued by others who would have benefited by it, the whole of the burden is borne by the Canadian National; is that the fair way to put it?

MR. FAIRWEATHER: That is the fair way to put it -- that is, the Canadian National and the Canadian Pacific.

LORD ASHFIELD: I am dealing only with the Canadian National; we still have to ask the Canadian Pacific.

MR. FAIRWEATHER: Quite.

LORD ASHFIELD: I gather from what you have said that it was not a part of the policy of the Canadian National Railways to seek to have other interests become identified with this policy and associated with the Canadian National Railways in it; it has never been a joint venture.

MR. FAIRWEATHER: Yes sir, it has been.

LORD ASHFIELD: Where?

MR. FAIRWEATHER: In Jamaica -- and we had a very unfortunate experience.

THE CHAIRMAN: I thought that was a venture of the Government and not the Canadian National Railways. It was the British West Indies steamships, wasn't it?

LORD ASHFIELD: I thought it was the Canadian Government that did that by treaty, and not the Canadian National Railways.

MR. FAIRWEATHER: Well, in a sense that is correct.

LORD ASHFIELD: Did the Canadian National Railways initiate that treaty?

MR. FAIRWEATHER: No, not the treaty; but the

hotel venture down there --

SIR JOSEPH FLAVELLE: Did you build the hotel down there?

MR. FAIRWEATHER: The story of that, Sir Joseph, is this --

SIR JOSEPH FLAVELLE: Mr. Chairman, there is a story I have never heard -- how the Canadian National came to build a hotel down in Jamaica when they did not own the steamship line and were only operating for the Government. Did the Government build the hotel?

MR. FAIRWEATHER: Neither the Canadian National nor the Government built the hotel. What happened was this: The Jamaican Government intimated that it would be a very fine thing if we had a hotel in connection with the steamship service, because the only hotel in Kingston was owned by the United Fruit Company -- the Myrtle Bank Hotel. They were, as I have already said, jealous of the United Fruit Company, and suspicious of them. The Canadian National Railways in its capacity as administrator of the West Indies steamships took into consideration the views of the Government of Jamaica, and by and with the advice of the Department of Railways and Canals entered into an agreement with the United Hotels Company of America whereby certain assistance was given to the United Hotels Company by the Jamaican Government and by the Canadian National Railways for the purpose of constructing and operating a hotel. The venture was very unfortunate, because the United Hotels Company, instead of being a reputable company with enough reserves to stand a period of development, promptly went bankrupt before they got the hotel completely constructed, and we lost all

our money.

LORD ASHFIELD: Was the purpose of building the hotel to reduce the losses on the operation of the steamship line?

MR. FAIRWEATHER: Indirectly, yes sir -- to stimulate the travel.

COMMISSIONER WEBSTER: You say that the hotel negotiations were entered into before the steamships actually began work?

MR. FAIRWEATHER: Oh no, after.

THE CHAIRMAN: Did that go into your accounts or the accounts of the steamship company?

MR. FAIRWEATHER: It is in the Canadian National accounts.

SIR JOSEPH FLAVELLE: How did you come to put that into the Canadian National? Was it discussed with the Government?

MR. FAIRWEATHER: It was discussed with the Government.

SIR JOSEPH FLAVELLE: Why did you put it in the same as the operating loss on the steamers?

MR. FAIRWEATHER: I believe the situation was that the Government did not feel they had the authority.

SIR JOSEPH FLAVELLE: How much did you lose?

MR. FAIRWEATHER: $260,000.

SIR JOSEPH FLAVELLE: And the building lies there unoccupied?

MR. FAIRWEATHER: Yes.

SIR JOSEPH FLAVELLE: Not completed?

MR. FAIRWEATHER: It is completed.

SIR JOSEPH FLAVELLE: Did you complete it afterwards?

MR. FAIRWEATHER: No, the United Hotels Company completed it and operated it for about three months.

SIR JOSEPH FLAVELLE: And then dropped it?

MR. FAIRWEATHER: Then dropped it.

SIR JOSEPH FLAVELLE: It has not been operated since?

MR. FAIRWEATHER: No sir, and the Jamaican Government hold a first mortgage upon it.

SIR JOSEPH FLAVELLE: For the amount they put into it?

MR. FAIRWEATHER: They did not put any money in; they guaranteed the bonds.

SIR JOSEPH FLAVELLE: Well, that is equivalent.

COMMISSIONER LEMAN: Are you carrying that asset for $260,000?

MR. FAIRWEATHER: Yes sir, as yet.

LORD ASHFIELD: I wish to ask you a question with reference to the deficit indicated on the third page after the yellow sheets in volume "A" -- dealing now with the Canadian National steamships -- amounting to $440,000 for the year 1930. For how long a period was that?

MR. FAIRWEATHER: That is for the year 1930.

LORD ASHFIELD: Did it operate a full year?

MR. FAIRWEATHER: The services operated a full year, but not with the new boats. The triangular service did not operate a full year, neither did the Alaska service; it never does.

THE CHAIRMAN: The triangular service does?

MR. FAIRWEATHER: The triangular service did not operate the full year.

THE CHAIRMAN: I asked you before about that but you said you could not give the information offhand. You have the material now so that you can give it?

MR. FAIRWEATHER: Yes, I have every trip here.

THE CHAIRMAN: These two boats -- which were they?

MR. FAIRWEATHER: The "Robert" and the "Henry".

THE CHAIRMAN: I think it would be convenient if we had the number of months they operated and the operating loss during those months.

MR. FAIRWEATHER: I have that, sir.

THE CHAIRMAN: I asked you that before and you said you could not give it very easily.

MR. FAIRWEATHER: I said it is complicated; it is not simple, but I have it. The operations of the Tri-City service resulted in a loss before interest of $157,263. Then there was an interest charge of $64,000, making a total loss of $221,000.

THE CHAIRMAN: How many months was it operated?

MR. FAIRWEATHER: It is all tangled up here with the Alaska service.

THE CHAIRMAN: I understood you to say before that you could not easily extract it. That was the point of my question -- the number of months. You can give it to us?

MR. FAIRWEATHER: I can make it up.

THE CHAIRMAN: We are speaking of the three ships that went into operation in 1930, and we would like to have information as to the number of months the Alaska ships operated and the loss on that service, and the number of months the two Tri-City ships operated and the loss on that service.

LORD ASHFIELD: We have taken a great deal of your

time, and I am sure the members of the Commission are extremely grateful to you for the immense help you have given us in trying to elucidate this terribly difficult problem. Speaking for myself, I never met anybody who seemed to have a wider and more intimate knowledge of affairs than you have; your command of facts and figures surprises me. Is there anything else you want to say generally to the members of the Commission before we let you go for a little while?

MR. FAIRWEATHER: With regard to what, sir?

LORD ASHFIELD: Anything -- is there anything in the back of your head that you would ask about if you were sitting here as a member of the Commission?

MR. FAIRWEATHER: With regard to operations?

LORD ASHFIELD: About the transport system generally in Canada, the matters we are dealing with. Do you think we have properly discharged our duty towards you, or is there something we should have asked that we have failed to ask? Have you any secrets you would like to tell us?

MR. FAIRWEATHER: I started on that, sir, the other day and you cut me off, saying you did not wish the subject touched on at that time.

LORD ASHFIELD: Which subject?

MR. FAIRWEATHER: When you were talking to me about what I would do if I were in a position of power, and I said I would reorganize the finances of the Canadian National Railway. I said, however, that would not be sufficient. If you would wish me to express my views on that, why, I shall do so, but you intimated at that time you did not wish me to pursue the matter.

LORD ASHFIELD: I think we are dealing with questions of fact at the moment.

MR. FAIRWEATHER: Quite.

LORD ASHFIELD: What I had in mind was matters of policy affecting the Canadian National Railways during the time you have been connected with it, whether in the pursuit of that policy you have anything you would like to say to us that we have overlooked at the moment. I shall not disregard what you have said to me just now; it may be that at a later stage when we have brought under review the situation better than we have up to the present, it would be useful to us to have some observations from you of a general character. Perhaps we have not quite reached that stage yet.

COMMISSIONER LEMAN: As a matter of fact, Mr. Fairweather, you expressed to us your general idea as to the value of the railway system -- just in a cauual way. Would you give us an estimate as regards the steamship end of the Canadian National Railways?

MR. FAIRWEATHER: Of its value?

COMMISSIONER LEMAN: Yes -- what you would take it over for.

SIR JOSEPH FLAVELLE: As a Christmas present?

MR. FAIRWEATHER: As a Christmas present.

COMMISSIONER LEMAN: So that is your answer?

MR. FAIRWEATHER: I may say this, that generally speaking I believe --

SIR JOSEPH FLAVELLE: Would you accept it as a Christmas present?

MR. FAIRWEATHER: If I were permitted to insure it.

But I may say in general that I feel that one of the defects of the Canadian National organization has been the ramifications of its operations. If it had confined itself more directly to the rail transportation problem I think it would have been better, because I firmly hold that no finer body of transportation men exists than the Canadian National officers. But transportation is a very specialized form of business, and when these specialists engage in sidelines they are very apt to commit indiscretions.

THE CHAIRMAN: We are very much obliged to you, Mr. Fairweather.

(Page 180 follows)

ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

The Royal Commission appointed to inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future developments of the country, met in private conference on the special train en route, Sunday, December 13, 1931.

PRESENT:

Right Hon. Lyman Poore Duff, P.C., Chairman

Right Hon. Lord Ashfield	Commissioners
Sir Joseph W. Flavelle, Bart.	
Beaudry Leman, Esq.,	
Leonor Fresnel Loree, Esq.	
Walter Charles Murray, Esq.,	
John Clarence Webster, Esq.,	

Arthur Moxon, Esq., K.C., Secretary

Officers of Canadian Pacific Railway Company

D. C. Coleman, Vice President Western Lines

E. E. Lloyd, Comptroller

Western Tour,
En Route Vancouver-Calgary,
Sunday, December 13, 1931.

PRIVATE CONFERENCE

The following Exhibits were filed:

Exhibit P^a, Canadian Pacific Railway Company's general statement of operations covering ten year period, 1921-1930.

Exhibit P^b, Appendix to P^a.

Exhibit P^c, Series of statements made in answer to questions submitted by Sir Joseph Flavelle.

MR. D. C. COLEMAN (Vice President, Western Lines): Mr. Chairman, as you suggested that I should make a general statement showing the effects of Canadian National competition on the Canadian Pacific in the west, may I suggest at the outset that it is difficult to define what is fair competition and what might be regarded as unfair competition. It is also hard to locate the exact point where competition, which is in its scope and incidence in the public interest, develops into extravagance and waste injurious to the public welfare.

When the Grand Trunk Pacific and the Canadian Northern Railways were merged to form the Canadian National, the service they were rendering in Western Canada, particularly in the case of the Canadian Northern, was undoubtedly inferior in quality to that furnished by the Canadian Pacific. An improvement was to be expected and was long over-due to the people whom these railways had attempted to serve. Train schedules were improved, obsolete passenger train equipment was replaced, a more adequate car supply was arran-

ged for shippers of freight, and transportation conditions in their territory were generally made more tolerable. If that regenerative process meant the loss of some traffic to the Canadian Pacific, I do not feel that we had any ground for complaint; but unfortunately, in our opinion, it was followed by excesses. Unnecessary trains were added, freight train schedules between competitive points were accelerated to an unprofitable degree, unnecessary luxuries in the way of train equipment and service were introduced, and an effort was made to duplicate or to surpass every facility supplied by the Canadian Pacific, whether or not it fitted into the necessities of the Canadian National. For example, take the colonization department. The Canadian Pacific had one, well organized, in order, primarily, to settle its own lands and incidentally to solicit the immigrant travel from Great Britain and Europe for its own steamships. The Canadian National had practically no lands to settle; it had no passenger steamships on the Atlantic; but it proceeded to organize a colonization department on elaborate lines. The Canadian Pacific had a commodious hotel at Vancouver which for a large portion of the year had difficulty in securing sufficient patronage to make operating expenses. The Canadian National must needs have one larger and more expensive.

There are other major projects to which I will return later, but I should like, first, to refer to some less conspicuous features of competition which, in the aggregate, mean a deal of money to both companies. I have in mind such practices as office and house delivery of railway tickets, the opening of unnecessary up-town freight, ticket and telegraph offices, the supplying of telegraph call boxes to

individuals and firms who do little business with the telegraph companies, the extension of free express delivery in the cities and the wholesale distribution of railway timetables.

When the amalgamation was made effective, the traffic or soliciting staff of two railway companies was incorporated in the new organization and an intensive solicitation of business was undertaken. An advertizing programme of very great proportions was embarked on and the results are apparent in the traffic expenses of both companies.

Free transportation has been dispensed on generous lines. Many members of the press, for example, carry annual passes, which is not the practice in any other country.

LORD ASHFIELD: Have you the total number of passes issued by the Canadian Pacific Railway?

MR. COLEMAN: Yes, we have a list; it is obtainable.

SIR JOSEPH FLAVELLE: The press would not come within the statutory limitation on passes?

MR. COLEMAN: Yes, working journalists.

LORD ASHFIELD: Does the Canadian law deal with the question of free transportation?

MR. COLEMAN: There is a clause in the Railway Act.

LORD ASHFIELD: Do you know how it compares with the law in the United States?

MR. COLEMAN: It is somewhat more liberal, and latitude is allowed the Railway Commission in its interpretation of the section; so a great many orders from time to time have been issued.

LORD ASHFIELD: You say there are many loopholes in this law which admit of evasion on a large scale?

MR. COLEMAN: I would say the law is so broad that

it is capable of abuse.

THE CHAIRMAN: Evasion is not necessary.

MR. COLEMAN: In the case of athletic clubs, the routing of travelling teams has been secured by the extension of favours to trainers and club officials.

The branch line programme of the two companies has been referred to by the Chairman. The provision made for branch line building by the Canadian National has been so liberal -- provision has been made by Parliament -- that the Canadian Pacific has been forced to anticipate the building of lines which might have been deferred without any serious injury to the public. Protective lines have had to be projected under the threat of invasion of territory by the Canadian National, who could easily summon a measure of support for any building proposal when the spending of public money was generally regarded as a meritorious performance.

THE CHAIRMAN : You might enlarge on the measure of support.

MR. COLEMAN: I might say, sir, that it was easy to get petitions sent to the government and to work up an agitation in the press in favour of any particular branch line.

THE CHAIRMAN: Quite so.

MR. COLEMAN: Outstanding illustrations can be given. A railway line was built into the Okanagan District from Kamloops. The territory was already adequately served by the Canadian Pacific. By reason of water supply conditions the production of fruit in that district cannot be materially increased, and it is doubtful if the peak tonnage reached some years ago can be surpassed.

THE CHAIRMAN: You might explain as to the water conditions.

MR. COLEMAN: Fruit and vegetables in the Okanagan Valley are all grown under irrigation, and the amount of water available depends on the volume of the mountain streams. The amount of water has been measured, and it is quite apparent that little, if any, additional acreage in that district can be supplied with water from those streams. I think it is doubtful if the peak tonnage reached some years ago can be surpassed.

Last year during the shipping season a check showed that on a number of occasions the two railways ran nine trains to provide for a tonnage, which, under non-competitive conditions, had been handled by the Canadian Pacific with three trains.

THE CHAIRMAN: That was an aggregate of nine trains on the two railways?

MR. COLEMAN: Yes. Both railways have freight offices in Vernon within a short distance of the Union Station, and separate telegraph offices at Kelowna within a stone's throw of the Union Station. With the competition of the motor bus and truck, railway traffic in that valley is more likely in future to decrease rather than to increase.

On Friday you saw the line being built by the Canadian National on Lulu Island. It must be apparent from your observations and from the map that any new industries which may locate on the Island could be much less expensively served by trackage off the existing Vancouver and Lulu Island Railway. It is merely an attempt to tie up the water front for the future, to obtain access to industries now located on our line and, incidentally, it deprives the B.C.

Electric of haulage to Abbotsford on eastbound freight originating on the Vancouver and Lulu Island line. I have a map, sir, which illustrates that situation.

THE CHAIRMAN: Have you any idea of the total investment in the B.C.Electric Railway?

MR. COLEMAN: No, sir. It is very large.

THE CHAIRMAN: Yes, it is enormous.

MR. COLEMAN: The majority of the stock has passed into Canadian hands -- Nesbitt Thomson and Holt Gundy.

(Mr. Coleman having explained the location on the map):

SIR JOSEPH FLAVELLE: The statement made at the meeting in Vancouver by the representative of the Harbour Commissioners for the North Fraser rather indicated that the portion of the industrial district which you control had been fully developed, all the lots having been taken, and that the connections made by the Canadian National opened up a more extensive area for development. Was that a correct statement?

MR. COLEMAN: That is the inference you could draw from what he said. But my point is, sir, that that could be much less expensively served as it develops by building spurs from the existing spurs of the Vancouver and Lulu Island line.

The speaker at the hearing said that the industrial area to be reached would serve the needs of three generations to come. You recollect that?

SIR JOSEPH FLAVELLE: I do not recollect that expression.

THE CHAIRMAN: What was the area he was talking about?

MR. COLEMAN: The area along the main Fraser. He said it would serve the needs of three generations to come. In

the meantime I presume a portion of the public money invested must be unproductive.

I am informed that only one industry so far has been located on this new area to be opened up by the Canadian National; that is a small rice mill which was formerly located on the Canadian Pacific.

THE CHAIRMAN: That has actually been located?

MR. COLEMAN: Yes. They claim they went over there on account of lower taxation. They refused a site on the Canadian Pacific.

The worst instance of unnecessary duplication of service in the west was the placing of steamships on the run between Vancouver, Victoria and Seattle. The Canadian Pacific had built up a service there which the late James J. Hill described as the best ferry service in the world. We had built in Great Britain ships of the most modern type, convenient and comfortable to the point of luxury, two of them capable of a sustained speed of over 22 knots. But over $6,000,000 was expended in building three ships designed to be larger and faster than our best. The total capitalization of our entire fleet, which serves thousands of miles of coastline, is not materially greater than the cost of those three ships. They have now been taken off the run, and you can ascertain what they cost the Canadian Pacific by taking their gross earnings while in service. It is to be doubted if they increased the traffic on the run to the extent of a solitary passenger or a single ton of freight.

And finally in the cost of unnecessary competition consideration may be given to the price paid for the Northern Alberta Railways. The Canadian Pacific was

prepared to make a reasonable arrangement for the operation or purchase of these properties, but the Canadian National stepped into the picture, encouraged the owners to expect a higher price, and by favourable terminal and traffic arrangements enabled the owners to bring pressure on the Canadian Pacific by denying us any share in the inbound or outbound traffic. In order to regain any connection with this potentially great territory, the Canadian Pacific had to buy at a figure much higher than would have been the case had it not been for the presence of another prospective purchaser. May I add that after the purchase of the railway the Canadian National came in and bought a half interest.

THE CHAIRMAN: After that preliminary statement, Mr. Coleman, would it be convenient for you or the comptroller to explain the capital structure of the Canadian Pacific Railway Company? I am perhaps not using that term "capital structure" in the strictly technical financial sense. I mean the legally authorized capital of the company divided into common stock, preferred stock, and so on. I do not think that that is in the documents you have furnished us.

MR. COLEMAN: Mr. Lloyd can explain that.

MR. E.E.LLOYD (Comptroller of the Canadian Pacific Railway Company): At the close of 1930 we had ordinary stock $335,000,000.

THE CHAIRMAN: I am speaking of the authorized capital.

MR. LLOYD: We are authorized to issue ordinary stock up to $375,000,000. The preference stock we are authorized to issue up to 50 percent of the common stock that is subscribed from time to time. The debenture stock we can issue now for two purposes only, that is to say, construction of new lines or acquisition of the securities of lines that

are leased to us and for the construction of steamships.

THE CHAIRMAN: Is there any limit on that?

MR. LLOYD: No, sir.

THE CHAIRMAN: Except the limit arising out of --

MR. LLOYD: There is no actual limit.

THE CHAIRMAN: First, you have $375,000,000 of what you call ordinary stock?

MR. LLOYD: Yes, sir.

THE CHAIRMAN: Then you can issue preferred stock up to 50 percent of the issued common stock or ordinary stock from time to time?

MR. LLOYD: Yes, sir.

THE CHAIRMAN: In addition to that you have authority to issue debenture stock for certain specified purposes?

MR. LLOYD: Yes, sir.

THE CHAIRMAN: No limit as to amount, the limit arising only out of the specification of purposes?

MR. LLOYD: Yes, sir.

THE CHAIRMAN: And those purposes are -- if you will kindly repeat them.

MR. LLOYD: The construction of new lines; the acquisition of securities of lines that are leased to us; the construction of steamers.

SIR JOSEPH FLAVELLE: Do you take your debenture stock as part of your funded debt?

MR. LLOYD: Yes, sir.

SIR JOSEPH FLAVELLE: Because it does not appear on your balance sheet as debenture stock.

MR. LLOYD: We keep that as the funded debt..

SIR JOSEPH FLAVELLE: How much of that is outstanding?

MR. LLOYD: There is $291,000,000.

COMMISSIONER LOREE: Are those voting power debentures?

MR. LLOYD: No, sir.

THE CHAIRMAN: You might explain about the voting power. How does that stand?

MR. LLOYD: The voting power of the common, of course, is the controlling --

THE CHAIRMAN: There are votes attached to the common and to the preferred?

MR. LLOYD: Yes.

THE CHAIRMAN: A vote for each share?

MR. LLOYD: A vote for each share of the ordinary, but four to one on the preferred.

THE CHAIRMAN: One vote for four shares on the preferred?

MR. LLOYD: Yes, sir.

LORD ASHFIELD: Do the preference shareholders vote with the ordinary shareholders at a meeting on all questions upon which the ordinary shareholders would vote, or are the voting rights of the preference shareholders suspended and only operative in the event of the preference shareholders being affected?

MR. LLOYD: That is it.

LORD ASHFIELD: They cannot vote at the ordinary general meeting of the company unless their interests are in jeopardy?

MR. LLOYD: Yes, sir.

THE CHAIRMAN: That must be by statute.

MR. LLOYD: Yes, sir.

THE CHAIRMAN: You have a statute, and under it you have power to make by-laws. Perhaps it is covered by the authorized by-laws. Can you remember when the statute was passed?

MR. LLOYD: No, but I can get the reference.

THE CHAIRMAN: I think Mr. Coleman was good enough to let us see his book which gives the statute. It would be really more convenient for us to look that up ourselves if you will let us have the reference later.

MR. LLOYD: Yes, sir.

THE CHAIRMAN: I think you have a statement showing how the company stands now with regard to issued stock and so on.

MR. LLOYD: I have up to the end of the year, December 31, 1930.

THE CHAIRMAN: Perhaps you would not mind giving us the whole thing, ordinary, preference and debenture stock.

MR. LLOYD: We have $335,000,000 of ordinary stock.

THE CHAIRMAN: Is that fully paid up?

MR. LLOYD: Yes, sir. Of preferred stock we have $129,348,587.79.

THE CHAIRMAN: Fully paid up?

MR. LLOYD: Fully paid up, sir. Then we have debenture stock of $291,411,548.74; that is fully paid up. Then we have collateral trust gold bonds. Do you wish them separately?

THE CHAIRMAN: That is a different matter.

SIR JOSEPH FLAVELLE: What you are reading is on the balance sheet, except you have not divided up the $446,000,000 as you are now dividing it.

MR. LLOYD: I put that all under funded debt.

THE CHAIRMAN: I rather wanted to get the amount of the fully paid ordinary stock, preferred stock and debenture stock, so as to have a picture of the shares.

SIR JOSEPH FLAVELLE: It is really the same thing, sir as they show it on the balance sheet. I asked a little

while ago where the debenture stock was, because they had put it in as funded debt.

THE CHAIRMAN: The reason for my question was to have in the first place your formal capital structure, and then to know how it stands. Where can we get the authority for issuing bonds? It must be defined somewhere.

MR. LLOYD: I will make a note of that.

THE CHAIRMAN: You can give the reference later. The particulars of the funded debt are given in the statement?

MR. LLOYD: Yes, sir.

THE CHAIRMAN: Is there anything further, Sir Joseph?

SIR JOSEPH FLAVELLE: No, sir. Particulars of the $446,000,000 are somewhere in this statement?

MR. LLOYD: That is on Exhibit C.

SIR JOSEPH FLAVELLE: I suppose the difference between your debenture stock and your bonds is that one is perpetual, the debenture stock, and the other is for a period?

MR. LLOYD: Yes, sir.

LORD ASHFIELD: If I understood your previous statement you said that your borrowing powers, that is, your right to issue debenture stock, is limited to the cost of acquisition of --

MR. LLOYD: Building new lines or the acquisition of the securities of leased lines.

LORD ASHFIELD: Or of companies you may take over?

MR. LLOYD: Yes, sir.

LORD ASHFIELD: Does that mean that the total cost is to be carried by the issue of debenture stock?

MR. LLOYD: Yes, we can issue debenture stock up to the cost of the securities that we buy. On branch lines we are

limited to a certain figure, $40,000 a mile.

LORD ASHFIELD: And in respect of the securities of the existing undertaking, you can acquire those securities by the issue of debenture stock covering the full cost to the Canadian Pacific Railway?

MR. LLOYD: Yes, sir.

MR. COLEMAN: Usually when a branch line is authorized by special Act of Parliament the amount of the bond issue is specified in the Act.

LORD ASHFIELD: The arrangement as to debenture stock is a recent one, is it not?

MR. LLOYD: No.

LORD ASHFIELD: It is an old arrangement?

MR. LLOYD: Yes.

LORD ASHFIELD: So the interest on the cost of new branch lines to the Canadian Pacific is a fixed charge?

MR. LLOYD: Yes.

LORD ASHFIELD: Therefore if the branch lines failed to meet their fixed charges, those become a direct operating loss to the Canadian Pacific Railway?

MR. LLOYD: Yes.

LORD ASHFIELD: Putting it in another way, to that extent you are in exactly the same position as that of the Canadian National Railways?

MR. LLOYD: I do not quite understand that.

LORD ASHFIELD: The point is this, that the Canadian National Railways have no equity stocks on which any burden can fall in the event of a deficit, and therefore the money has to be provided from some source or another; that is with respect to the whole of their undertaking.

MR. LLOYD: Yes.

LORD ASHFIELD: As I understand you now, with respect to your branch lines operations, whatever deficit there may be must be provided by the Canadian Pacific Railway?

MR. LLOYD: Yes, sir.

LORD ASHFIELD: Therefore of course it is something less for the shareholders of the Canadian Pacific should they have to meet this deficit.

MR. LLOYD: Yes.

LORD ASHFIELD: But so far as the operation of branch lines per se is concerned, you are really in exactly the same position as the Canadian National Railways.

MR. LLOYD: Yes, I agree.

LORD ASHFIELD: You see my point?

MR. LLOYD: Yes.

COMMISSIONER LEMAN: As between the power you have of issuing debenture stock for the full value of the lines you acquired and what you actually did, would that be exactly the same thing?

MR. LLOYD: No.

THE CHAIRMAN: The limit in the statute is $40,000 a mile or whatever it may be. It is in the acquisition of the securities of leased lines or in the building of ships that there is no limitation as to amount; the restriction arises only out of the purpose for which the money is to be applied.

COMMISSIONER LEMAN: They can do it, but have they issued debenture stock for the full amount?

THE CHAIRMAN: Is that so, Mr. Lloyd; in the case of the building of ships, for example, have you been providing for the cost by issuing debenture stock?

MR. LLOYD: We have not capitalized all our ships.

THE CHAIRMAN: You have in some cases?

MR. LLOYD: We have in some cases.

THE CHAIRMAN: And in the case of the acquisition of securities of leased lines?

MR. LLOYD: In that case it is pretty well taken care of through the issue of debenture stock.

LORD ASHFIELD: May I ask why it is done that way, because the Canadian Pacific Railway is a very substantial corporation; why is it that no part is borne by equity stocks?

MR. LLOYD: Of course it is a cheap stock, a 4 percent stock.

LORD ASHFIELD: It is looked upon by the Canadian Pacific Railway as an advantageous arrangement?

MR. LLOYD: Yes.

LORD ASHFIELD: Not because your credit is not equal to the strain!

MR. LLOYD: Quite.

SIR JOSEPH FLAVELLE: What is the priority of this preferred stock as to dividend?

MR. LLOYD: The preferred stock is the first lien on our entire property.

SIR JOSEPH FLAVELLE: You mean it comes before the bond interest?

MR. LLOYD: Yes.

SIR JOSEPH FLAVELLE: The first payment from any profits is payment of the dividend on your perpetual debenture stock?

MR. LLOYD: Yes.

SIR JOSEPH FLAVELLE: Of course, it is really a method of getting cheap money for the purpose of carrying

on your capital structure.

MR. LLOYD: Yes, sir.

SIR JOSEPH FLAVELLE: Your capital investments, whatever they may be; and you are limited in amount by the readiness with which the market will take the debenture stock and the provisions under which you can use it.

MR. LLOYD: Yes, sir.

THE CHAIRMAN: This debenture stock yields to the holder of it precisely what in income?

MR. LLOYD: 4 percent.

THE CHAIRMAN: That is all he gets?

MR. LLOYD: Yes.

LORD ASHFIELD: After all, this new financing is on a 4 percent basis.

MR. COLEMAN: Providing we sell the bonds at par.

SIR JOSEPH FLAVELLE: Under existing conditions, Mr. Coleman, what is the market rating value of that debenture stock?

MR. LLOYD: It is around 80.

LORD ASHFIELD: Do you mean now or during the past two or three years?

MR. LLOYD: Within the last year.

LORD ASHFIELD: Before that when you were doing the financing what were you selling it at?

MR. LLOYD: It did go down to 65 once. We have sold it at a premium.

SIR JOSEPH FLAVELLE: When you speak of 65, you never issued it at 65?

MR. LLOYD: Yes, we sold it at 65.

COMMISSIONER LOREE: What is the average price on your books for the whole outstanding amount at par?

MR. LLOYD: I can get that. I would say it would be

somewhere in the neighborhood of 86 or 90.

THE CHAIRMAN: Now, Sir Joseph, I think you wanted to hear about depreciation; perhaps this would be a convenient point.

COMMISSIONER LOREE: May I raise one other question? In the States when we sell bonds at a discount we charge that discount to profit and loss or to the life of the bonds. What is the position with you?

MR. LLOYD: We charge that off against premiums we have on our common stock.

SIR JOSEPH FLAVELLE: That is, in issuing your common stock you secured a premium which you carried to a special reserve, and you have used that special reserve. Do you use it also to liquidate the discount on your bonds?

MR. LLOYD: We have done so, yes.

SIR JOSEPH FLAVELLE: So far as your cash is concerned, you only treat your stock premiums as a reserve against possible sale of securities at a lower price than par?

MR. LLOYD: Yes. Of course, it is available for capital purposes -- the premium on our capital stock.

SIR JOSEPH FLAVELLE: Has it been sufficient to take care of what you charge to it for betterments?

MR. LLOYD: Yes, we have a considerable balance there yet, the premiums on capital stock, $69,000,000.

SIR JOSEPH FLAVELLE: Unabsorbed?

MR. LLOYD: Yes.

LORD ASHFIELD: Before we come to the question of depreciation, in order to clear up the position that might lead to the discussion of depreciation, may I ask you, Mr. Lloyd, what are the available reserves of the Canadian Pacific today?

MR. LLOYD: You mean liquid?

LORD ASHFIELD: Cash or in market securities you can sell.

MR. LLOYD: At the end of last year we had cash to the amount of thirty eight and three-quarter million dollars, and the investments that we could dispose of are carried at about fourteen million dollars.

LORD ASHFIELD: Is that book value or their present day value?

MR. LLOYD: That would be their cost value. We have a par value figure. I should say that would be the par value.

SIR JOSEPH FLAVELLE: That is investments you have made in securities so as to get some earning power on your cash reserve?

MR. LLOYD: Yes; for instance, Consolidated Smelters.

SIR JOSEPH FLAVELLE: But you have a rather important investment side of that character, have you not? Those are thrown into a class by themselves, are they?

MR. LLOYD: Yes, we keep those separately.

SIR JOSEPH FLAVELLE: When you speak of having thirty-eight million dollars odd in cash, do you mean that you are carrying in your various treasuries throughout the country uninvested cash of that amount not earning interest?

MR. LLOYD: We are merely earning bank interest.

THE CHAIRMAN: Mr. Lloyd, you can get us the reference showing the authority of the company with regard to bond issues? I am not speaking now of debenture stock especially. We want to get just a formal idea of the situation.

MR. COLEMAN: Yes. I have the reference here to the

preference stock which could be issued.

THE CHAIRMAN: This does not deal with debenture stock -- 56 Victoria, Chapter 41:"Shall not at any time exceed one half of the aggregate amount of the ordinary stock." Then there is provision with regard to voting.

COMMISSIONER LOREE: Do you carry the value of your unsold land in your balance sheet?

MR. LLOYD: Yes, under assets.

COMMISSIONER LOREE: At what value?

MR. LLOYD: The land is carried at various values; about two dollars to three dollars below the market.

COMMISSIONER LOREE: That changes from time to time?

MR. LLOYD: We are writing it down all the time. We write our western acreage down a dollar an acre a year.

SIR JOSEPH FLAVELLE: You write it into what?

MR. LLOYD: Into our profit and loss. It just reduces our assets.

SIR JOSEPH FLAVELLE: What is the corresponding entry on the other side of the book?

MR. LLOYD: It is in --

SIR JOSEPH FLAVELLE: It is not an operating situation?

MR. LLOYD: Oh no.

SIR JOSEPH FLAVELLE: Does that go into investments?

MR. LLOYD: No. The only place where the land appears is in the balance sheet. It does not touch on present income or operations. It is carried into surplus with other assets.

SIR JOSEPH FLAVELLE: The lands have a balance sheet of their own, have they?

MR. LLOYD: Yes, sir.

SIR JOSEPH FLAVELLE: And if you write a dollar an

acre off the land you take it off your reserve and credit your land?

MR. LLOYD: Yes, sir.

COMMISSIONER LOREE: Mr. Chairman, there is one item in the Drayton-Acworth report that I am not quite clear about. They state the cash appropriated by the government for the benefit of the road, then they give the lands sold by the road from time to time at sales price and not at the value the lands had at the time they were given to the company. The report would seem to me to be incorrect in that respect.

THE CHAIRMAN: I think it would be more convenient to have a written statement showing in the first place the cash which the Canadian Pacific received by way of subsidies from the government, then the assistance by way of guarantees from time to time -- guarantees I suppose in respect to which the government has never been called upon to make good, the obligations having always been taken up by the company; also the extent of the land subsidies and of the railway mileage that was taken over, and then particulars as to the way in which the company has valued the lands and the railway mileage. Just as Mr. Loree says, in the Drayton-Acworth report the land subsidy which was given in 1881, and surveyed and marked off about four or five years later, is treated as having a value equivalent to the price for which the land ought to be sold. Of course at the time it was given it was worth very much less than that.

MR. LLOYD: Yes.

THE CHAIRMAN: Its value really was produced by the construction of the railway.

MR. LLOYD: Yes.

SIR JOSEPH FLAVELLE: There was no value until then.

THE CHAIRMAN: But you must have dealt with that in some way. I think you will have no particular difficulty in providing a statement showing that.

MR. LLOYD: No. I can give you the cash and the land that we received, and the value of the railway we received; I can give you that now if you wish.

THE CHAIRMAN: Yes. On what basis do you arrive at the value of the railway?

MR. LLOYD: The cost to the government.

THE CHAIRMAN: I should have thought the proper way of dealing with it would be to charge it with the amount saved to you in construction. However, you treat it as having the value fixed by the cost to the government?

MR. LLOYD: Yes. By way of cash -- I am speakingnow of the C.P.R.-- we received 40, 321,809.

THE CHAIRMAN : That is Canadian Pacific Railway?

MR. LLOYD: Yes.

SIR JOSEPH FLAVELLE: That included the first grant of 25,000,000 and the subsequent grant?

MR. LLOYD: That was 25,000,000. Then we sold back to the government 6,793,000 acres of land at $1.50 an acre.

SIR JOSEPH FLAVELLE: Do you count that as cash?

MR. LLOYD: Yes, we take that in lieu of the land. Then we received 19,917,386 acres of land, and the cost of the lines built by the government.

COMMISSIONER LOREE: So at that time the land would be worth only $1.50 per acre?

MR. LLOYD: Yes, although they refused to guarantee an issue of bonds against the lands valuing them at 75 cents

an acre.

THE CHAIRMAN: That is, the government refused?

MR. LLOYD: Yes.

SIR JOSEPH FLAVELLE: Was not this in substance the transaction: It being difficult to finance at that time, and needing $10,000,000, you received that sum from the government and you gave them the 6,700,000 acres of land, which was valued at $1.50 an acre?

MR. LLOYD: Yes, sir.

SIR JOSEPH FLAVELLE: There were periods during the development of the enterprise when both the government and the company were in great anxiety as to how they would get on. This was one of the methods whereby some of the 25,000,000 acres of land granted to the company was reduced to 19,000,00 odd in order that the government could say: We took back lands to the extent of 6,700,000 acres odd and gave you $10,000,000. They were not fixing the value of the land definitely.

COMMISSIONER LOREE: What were they offering the land to settlers at?

THE CHAIRMAN: A dollar an acre.

MR. LLOYD: It was about a dollar an acre as you say.

THE CHAIRMAN: Under the statute of 1879 it was fixed at a dollar an acre. Of course, the settlers were homesteaders.

COMMISSIONER LEMAN: Is there any difference in the value of the land sold to the government and what was left to you? Did they select anything that had a more immediate market?

MR. LLOYD: I would have to look that up, sir. I am not quite sure of that.

THE CHAIRMAN : Of course, a good deal of this land was not available for agriculture at all.

COMMISSIONER LOREE: You took title to the land?

MR. LLOYD: Yes.

COMMISSIONER LOREE: In the States we had to take out patents to each section. There were about 15,000,000 acres worthless because they were sand deserts and so on, and they were never patented. I wonder how much the real value of that land was.

THE CHAIRMAN: I think article 12 of the agreement shows all that. There was a double substitution. In the final substitution the company were given the right to select land anywhere in the Territories.

SIR JOSEPH FLAVELLE: That is it. Bear in mind, Mr. Loree, that the government was soliciting a group of men to undertake the reponsibility of building the Pacific line of railway from tidewater on the east to tidewater on the west. During the negotiations the government undertook to give that group 25,000,000 acresand $25,000,000, and the company undertook to construct and complete within ten years the line we are now travelling over. During the process of construction they ran into a difficult time of financing and had to come to the government more than once for help, but they had great difficulty in securing help. Public opinion ran very high, the Canadian Pacific Railway was said to be the pet of one of the parties, and the other party criticized the undertaking severely, with the result that this is one of the things that was done; the company surrendered a certain portion of their lands and received $10,000,000.

THE CHAIRMAN: But there was an additional $5,000,000 Sir Joseph. Did the whole $15,000,000 come from the result

of such transaction as that exchange of your lands for money from the government?

MR. LLOYD: No. Originally we got 25,000,000 acres. We received an additional land grant in connection with the Souris branch.

THE CHAIRMAN: I am speaking now of the cash subsidy. You put that at $40,000,000. Originalily the subsidy was $25,000,000.

MR. LLOYD: Yes, and that is the $10,000,000 we got for the land and $5,000,000 additional with subsequent grants.

THE CHAIRMAN: Was that a cash subsidy?

MR. LLOYD: Yes, sir.

THE CHAIRMAN: When did you get that?

MR. LLOYD: We got part of that in connection with the Crow's Nest,$3,400,000, and the balance --

SIR JOSEPH FLAVELLE: Very expensive money as it has turned out since. You got $3,400,000 in connection with the Crow's Nest, and a million and a half --

MR. LLOYD: In miscellaneous items.

SIR JOSEPH FLAVELLE: That covers the whole thing?

MR. LLOYD: There was the value of the railways.

SIR JOSEPH FLAVELLE: You are fixing the value of the Railways at?

MR. LLOYD: $37,785,320.

SIR JOSEPH FLAVELLE: That being what those cost the government?

MR. LLOYD: Yes.

SIR JOSEPH FLAVELLE: Was there anything but that $25,000,000 which you got for the construction of the north shore line?

MR. LLOYD: No, we got other guarantees. I will have to get that information.

SIR JOSEPH FLAVELLE: That is to say, securities issued by you were guaranteed by the government, which you have since discharged without the government having to pay anything?

MR. LLOYD: Yes.

THE CHAIRMAN: I want to get the whole story of the assistance by the government. You will give us the reference so we can get the authority with respect to the borrowing and issuing of bonds?

MR. LLOYD: Yes.

Depreciation

SIR JOSEPH FLAVELLE: In youraccounting what method do you adopt for depreciation?

MR. LLOYD: We do not use depreciation at all. When a unit of equipment is retired we charge into our expenses the cost of replacing the unit. For instance, we have a box-car which originally cost us, we will say, $800, and that car has to be replaced by a car worth $3,000; we charge expenses with $3,000. We do not change our capital account.

SIR JOSEPH FLAVELLE: You do not add to the capital?

MR. LLOYD: Up until the end of 1929. In 1930 we changed and we went on the same basis as that used by the Canadian National Railway -- the Inter-State Commerce Commission basis.

SIR JOSEPH FLAVELLE: Your equipment stood at $90,000,000; then you decide to buy some new equipment to take the place of the old. You do not mean that you charge the entire cost of the new equipment into the expenses of the year?

MR. LLOYD: Yes, sir.

SIR JOSEPH FLAVELLE: That is a very heroic method. You write off the old equipment?

MR. LLOYD: The old remains in our investment.

SIR JOSEPH FLAVELLE: Whatever the scrap value was that you sold it for?

MR. LLOYD: Yes.

SIR JOSEPH FLAVELLE: In the meantime all replacements became a full charge, including new equipment?

MR. LLOYD: Not additions to our rolling stock; that was capitalized. But where we replaced a unit the entire expense was charged into our expenses up until the end of 1929.

SIR JOSEPH FLAVELLE: What is your method now?

MR. LLOYD: The same as the National.

COMMISSIONER WEBSTER: The Interstate Commerce Commission method?

MR. LLOYD: Yes, with the exception that under the Interstate Commerce Commission you have to provide depreciation.

COMMISSIONER LOREE: Sir Joseph, the Interstate Commerce Commission is a branch of the Congress of the United States, a legislative body. It is a regulating body, not a managing body, according to the theory of the law. They laid down the rule that where property was abandoned and not replaced the item could be charged to profit and loss; but where it was abandoned and replaced the charge of the abandoned property was to go into expenses. I conducted on behalf of the Kansas City Southern some grade changes, which involved the abandonment of certain lines and the substitution of new construction. I elected as

manager of the property to charge the value of the abandoned lines to profit and loss. Either method would be correct accounting; I could charge it to profit and loss or to expenses. That case went to the Supreme Court, and we challenged it on the question of management, but the Supreme Court sustained the Commission on the ground that it was a question of regulation. That practice was in vogue for twenty years. The Erie railroad a year or two ago went very heroically at work on its equipment and retired about 10,000 cars, and about a thousand locomotives. If that charge was made to expenses it would put the road in receivership. Faced with that condition, the Interstate Commerce Commission became cautious and issued an order allowing the Erie road to charge that to profit and loss. There is trouble because the Northwestern and several other lines came in with similar requests. Just where they will finally end I do not know.

SIR JOSEPH FLAVELLE: The apprehension I always have with respect to equipment at any time is the retaining of the substantial capital sum with the plus of the new equipment coming on, in which there is always a considerable percentage that is kept active but is not as desirable as the new.

COMMISSIONER LOREE: I think the practice has been very much abused by American roads in the past.

SIR JOSEPH FLAVELLE: Where that practice is followed in an industrial plant, and the banker comes into possession of the property, he finds an utterly overloaded equipment account for which there is no tangible asset representing anything like the investment on the books. I have always felt that the proper keeping of the equipment within due

proportions is as much a charge annually on the business as the wages of the work people. Set aside a separate cash fund and dig it into the business to do its work by all means, but let each year bear its full share of the use of the equipment and its later retirement because it becomes ineffective.

COMMISSIONER LOREE: An alternative method which would being about the same result would be reduction of capital.

SIR JOSEPH FLAVELLE: Quite.

COMMISSIONER LOREE: Mr. Cassatt and I figured over a long time the question of the relation of profit and loss to the capital stock issue. If we had on profit and loss a surplus of 5 percent of the stock issue we felt that would be a safe minimum. When the Delaware and Hudson Company made its separation it had a stock issue of $51,000,000 and a profit and loss credit of $40,000,000. That has grown all over the country; we have been piling up profit and loss credits on the books but are unable to use them as would a commercial company.

SIR JOSEPH FLAVELLE: To meet the ruling of the Interstate Commerce Commission.

COMMISSIONER LOREE: Yes, I think it has been very detrimental to the property.

SIR JOSEPH FLAVELLE: I would judge that your present method is not as severe on your profit and loss statement as your old method.

MR. LLOYD: No, sir, it is not.

SIR JOSEPH FLAVELLE: Not speaking in any critical way at all of how the Canadian Pacific make their entries, the tendency is to treat depreciation as a flexible thing, that when you have good times you can be pretty liberal and when

you have bad times you must make it as small as possible. In my judgment this is wholly unsound, or, to use an expression which we heard the other day, fooling yourself as to the true situation of the development of the business. However, when you get into competitive lines that keep accounts in another way, sometimes there may be temptation to follow the same easy method.

MR. LLOYD: Our main difficulty was that we were running up against the replacement of a $10,000 locomotive with $100,000 locomotive, and it hit us too hard.

SIR JOSEPH FLAVELLE: Of course, you must have had a pretty heavy equipment account at the end of 1929 by the method you adopted.

MR. LLOYD: We had a reserve of $9,000,000;

SIR JOSEPH FLAVELLE: Is that what you call your replacement account?

MR. LLOYD: Equipment replacement.

SIR JOSEPH FLAVELLE: Your equipment replacement would not go very far in absorbing a new locomotive.

MR. LLOYD: No. We have $9,000,000 there. The result of our method prior to 1930 is that we have equipment inventoried at a value of $50,000,000 more than it is carried at in the books, and during the ten year period that we have compiled here our charges to expenses represent a rate of 3.6 percent in lieu of depreciation.

SIR JOSEPH FLAVELLE: 3.6 percent upon the cost of the equipment?

MR. LLOYD: Upon the average value of the equipment during the ten years.

SIR JOSEPH FLAVELLE: Might I ask you -- it comes in in the same connection, although in another field when you

present your hotel earnings -- what is your practice in relation to depreciation in making up your hotel earnings?

MR. LLOYD: It is not in there at all; we did not assess any depreciation against hotels.

SIR JOSEPH FLAVELLE: What about your interest on the investment?

MR. LLOYD: That is not there either, sir. It is merely a straight case of earnings and expenses.

SIR JOSEPH FLAVELLE: Your replacements, new furnishings and alterations all go into the general railway earnings?

MR. LLOYD: They are all out of hotel earnings.

SIR JOSEPH FLAVELLE: After you once buy the first equipment, subsequent replacements are charged against the years operating --

MR. LLOYD: Of the hotel.

SIR JOSEPH FLAVELLE: But nothing is charged for the depreciation of the buildings in your actual accounting?

MR. LLOYD: No, sir.

SIR JOSEPH FLAVELLE: And nothing is charged for interest?

MR. LLOYD: No, sir.

SIR JOSEPH FLAVELLE: Do you credit the hotels in the profit you show for some advantage the railway has had from selling tickets?

MR. LLOYD: No, sir.

SIR JOSEPH FLAVELLE: This is a --

MR. LLOYD: -- pure hotel account.

SIR JOSEPH FLAVELLE: Simply so much money spent for food and service, and so much comes back to you in revenue from your guests?

MR. LLOYD: Yes, sir.

SIR JOSEPH FLAVELLE: And you absorb interest in your general statement when you are clearing up accounts of the whole railway?

MR. LLOYD: Yes.

SIR JOSEPH FLAVELLE: You do not put them into the hotel expenses?

MR. LLOYD: No.

SIR JOSEPH FLAVELLE: I suppose in a rough and ready way you have an advantage in the hotels by reason of the tickets that are sold that otherwise might not be sold if you did not have the hotels; you credit them with that?

MR. LLOYD: No, sir, they get no credit.

SIR JOSEPH FLAVELLE: Is the tendency under those circumstances for the hotel investment -- I am not including new hotels -- to steadily rise? If I take hotel A, under your method does it increase in value by reason of improvements and betterments that are not absorbed in the years' expenses?

MR. LLOYD: Anything that is strictly a capital charge is added to the cost of the hotel.

SIR JOSEPH FLAVELLE: That is, if you make an extensive change?

MR. LLOYD: If we make an extensive change.

SIR JOSEPH FLAVELLE: The term "capital charge" is capable of a great number of interpretations.

MR. LLOYD: I know we always try --

SIR JOSEPH FLAVELLE:-- to err on the prudent side.

MR. LLOYD: Yes.

SIR JOSEPH FLAVELLE: You have had the money with which to do it.

MR. LLOYD: Yes.

THE CHAIRMAN: Is expenditure on entirely new equipment for hotels treated as a capital charge as you do with respect to the railways?

MR. LLOYD: Yes, sir, any replacement to the existing equipment is operating expense.

THE CHAIRMAN: Quite so; but the cost of new equipment is treated as a capital charge?

MR. LLOYD: Yes, sir.

SIR JOSEPH FLAVELLE: You speak of new equipment. If the management said,"This thing won't do," and you pull out the old equipment and replace it, does that go to capital account?

MR. LLOYD: No, that is replacement unless --

SIR JOSEPH FLAVELLE: But if you were building a new section, that of course becomes a charge?

MR. LLOYD: That becomes capital.

SIR JOSEPH FLAVELLE: In other words, you do not fool yourselves.

MR. LLOYD: We try not to.

LORD ASHFIELD: Let me understand what this fooling process means or does not mean. Take a locomotive that stands in your books at $10,000, and you buy a new locomotive, we will assume the one we have seen this morning pulling this train, which would cost?

MR. LLOYD: About $100,000.

LORD ASHFIELD: How is that transaction dealt with in your accounts?

MR. LLOYD: Up until the end of 1929 that ninety thousand dollars odd had to be provided out of expenses; in fact the whole $100,000 had to be provided out of expenses, we did not change the capital account at all.

LORD ASHFIELD: Now you have altered that?

MR. LLOYD: Yes.

LORD ASHFIELD: You have substituted for that an arrangement whereby $90,000 is charged to capital account and $10,000 to operating expenses; is that right?

MR. LLOYD: Of course, in the final analysis that is what happens; you wipe out $10,000 entirely and write in the new, so your capital is only disturbed to the extent of $90,000.

LORD ASHFIELD: That is a perfectly fair arrangement, is it not? It is sound finance.

MR. LLOYD: There is nothing wrong with that that I can see except this question of depreciation.

LORD ASHFIELD: We will come to that in a minute.

Page 215 follows.

LORD ASHFIELD: Referring to page 1 of the appendix marked F-B, I would direct your attention to an item in liabilities account, reserve and appropriations, $42,812. What is that?

MR. LLOYD: That is composed of our equipment replacement, our steamship replacement account, and the reserve fund for contingencies, and then a special reserve to meet taxes.

LORD ASHFIELD: It represents sums of money taken out of revenue in past years, which in 1930 had reached $42,800?

MR. LLOYD: Yes sir.

LORD ASHFIELD: The difference, then, between the $58,000,000 -- let us keep to round figures -- in 1929 and the $42,000,000 in 1930 means that you have spent that $16,000,000 on equipment and taken it out of reserve account?

MR. LLOYD: Yes -- it is not only equipment, sir; it is other items as well.

LORD ASHFIELD: It is not rolling stock?

MR. LLOYD: Not altogether; it may be buildings, steamships.

THE CHAIRMAN: And taxes also, you said.

MR. LLOYD: Taxes, yes.

SIR JOSEPH FLAVELLE: Are these amounts each year the residue at the end of the year to the credit of that account?

MR. LLOYD: Yes sir.

SIR JOSEPH FLAVELLE: For instance, in 1921 it was $79,000,000; then it commences to travel down, and in 1923 it reached $57,000,000. What had happened to reduce it?

MR. LLOYD: You see, we are the bankers for our

steamship company, and we were bankers for the Allan Line Steamship Company. We carry that in our reserves for contingencies, the amount of the money that we owe to them, and that was largely depleted by the winding up or the settlement for the Allan Line, and the payment of taxes.

SIR JOSEPH FLAVELLE: Did you incorporate it into yours?

MR. LLOYD: Yes. We had a big adjustment there with the British Government on taxes.

THE CHAIRMAN: That was in what year -- 1923?

MR. LLOYD: It was from 1921-22 to 1923.

SIR JOSEPH FLAVELLE: You mean taxes on your steamship services?

MR. LLOYD: Yes, with the British Government -- it was an excess profits tax. We were fighting them and we had to carry the amount in reserve until we had to pay.

LORD ASHFIELD: Have you seen the new form which has been prepared by the Secretary asking for certain information from the Canadian National Railways?

MR. LLOYD: No.

THE SECRETARY: I gave that to the Canadian National, sir; did you want that same form for the Canadian Pacific?

LORD ASHFIELD: Certainly. That form will deal with the question of depreciation; it puts both undertakings on the same basis. You will have an opportunity to see that form, and you will be able to prepare the figures accordingly?

MR. LLOYD: Yes sir.

LORD ASHFIELD: I will not waste your time by dealing with it now.

SIR JOSEPH FLAVELLE: I presume as far as hotel investments are concerned you alter your judgment from time to time according to the circumstances, as to whether you will increase your hotel accommodations still further. Take, for instance, a situation such as England; the establishment of a hotel in England grows out of what conditions of a railway enterprise?

MR. LLOYD: That is a pretty hard question for me to answer.

SIR JOSEPH FLAVELLE: Perhaps I should ask Mr. Coleman that. What are the circumstances, Mr. Coleman, that would suggest that a hotel in England is part of a railway enterprise in Canada?

MR. COLEMAN: Well, to encourage interest in Canada, to stimulate traffic on our railways, and to bring the Canadian Pacific to the notice of the people residing in Great Britain.

SIR JOSEPH FLAVELLE: There would be no entry in the books showing the advertising value of the whole thing, from the point of view of what you say, Mr. Coleman, in that regard?

MR. COLEMAN: No.

SIR JOSEPH FLAVELLE: It is part of a general policy in which you felt the publicity you would secure justified the expenditure?

MR. COLEMAN: Yes. There is a steamship company, a railway company and a colonization agency.

COMMISSIONER LEMAN: Referring to the appendix, page 5-B, it would seem that the ratio of earnings to expenses in passenger service has been steadily mounting, whereas

the ratio of earnings to expenses in freight service has been steadily going down. Can you place your finger on any special reason for that?

MR. LLOYD: Well, of course the passenger revenue has been going off to a certain extent, and the service has been largely maintained. There have been reductions in the passenger service, but that is really the principal factor.

THE CHAIRMAN: Reductions in revenue?

MR. LLOYD: Reductions in revenue. I would attribute the decreasing operating ratio in freight service largely to efficiency.

MR. COLEMAN: Some of the passenger loss, of course, is due to more luxurious service.

MR. LLOYD: Earnings were steady but expenses were going up.

SIR JOSEPH FLAVELLE: Taking your operating accounts, when you say you charged to your operating expenses the cost of equipment replacement after the fashion you have indicated, would that be included in your expenses and be a factor in your ratio?

MR. LLOYD: Yes.

SIR JOSEPH FLAVELLE: For instance, you operated on the basis of 78 per cent; you included in the expense of such operation the taking care of the equipment after the fashion you have indicated?

MR. LLOYD: Yes sir.

SIR JOSEPH FLAVELLE: For instance, if a $100,000 engine replaces a $10,000 engine, $90,000 would be charged into expenses?

MR. LLOYD: There would be $100,000 into expenses.

SIR JOSEPH FLAVELLE: And the other $10,000 would be credited back?

MR. LLOYD: The capital is not disturbed; the whole $100,000 is charged to expenses.

SIR JOSEPH FLAVELLE: And that would represent the operating ratio of 78, 85 and 68 per cent?

MR. LLOYD: Yes sir, it is part of our expenses.

LORD ASHFIELD: With regard to page 4 of this appendix, first line, gross earnings, does that mean gross earnings from railway and steamship operation alone?

MR. LLOYD: That is railway only.

LORD ASHFIELD: Only railway operation?

MR. LLOYD: Railway only.

LORD ASHFIELD: And when you come to line 5, special income, what does that include?

MR. LLOYD: That is net -- I will give you the headings.

THE CHAIRMAN: Here it is on page 6.

MR. LLOYD: The first heading is revenue from investments and available resources; that is a group of our investments that were not capitalized. The next heading is interest on bank deposits and interest on dividends and other securities; that is the balance of our investments plus the bank interest. The next one is the net earnings of ocean and coastal steamship lines.

LORD ASHFIELD: What is the explanation of the sudden increase of 1929 to 1930?

MR. LLOYD: What is that, sir?

LORD ASHFIELD: The third item -- ocean and coastal steamships.

MR. LLOYD: That is the Allan Line -- there is a

footnote there. There was a special distribution of $6,500,000.

LORD ASHFIELD: Something exceptional in the year?

MR. LLOYD: Yes, it was the winding up of the Allan Line.

COMMISSIONER LEMAN: That would be non-recurring income.

MR. LLOYD: Quite so. It was virtually a liquidating dividend. We owned all the stock in the company.

SIR JOSEPH FLAVELLE: Which apparently had a liquid value of $6,000,000 greater than the amount at which you had carried it?

MR. LLOYD: Yes. Of course there was some of the profit in there, although it had all been disposed of; we had either bought the ships or had lost them during the war or disposed of them to the Government.

LORD ASHFIELD: One might put it this way -- it is a windfall in that year?

MR. LLOYD: Exactly. It will not occur again.

COMMISSIONER LEMAN: It was a hidden reserve that was brought out that particular year.

MR. COLEMAN: It is referred to in the President's address at the annual meeting of the shareholders.

SIR JOSEPH FLAVELLE: The statement shows your total earnings, including steamships and everything else?

MR. LLOYD: Yes, we bring them down on page 4 -- we show our total income there before fixed charges.

THE CHAIRMAN: Is it in the income statement?

MR. LLOYD: Yes sir.

SIR JOSEPH FLAVELLE: The total income brought down here is after expenses and includes all your operations?

MR. LLOYD: All our operations exclusive of the land.

SIR JOSEPH FLAVELLE: It includes the steamships?

MR. LLOYD: Steamships, telegraphs, hotels, and so forth.

SIR JOSEPH FLAVELLE: So this is really a complete income statement -- this appendix, page 4?

MR. LLOYD: Yes.

COMMISSIONER LEMAN: Is the pension fund in your general statement or is it treated as an entirely separate item of liability?

MR. LLOYD: The only thing that is embodied in our statement in that respect is the company's contribution to the fund.

COMMISSIONER LEMAN: Yearly?

MR. LLOYD: Yearly.

COMMISSIONER LEMAN: And after that it disappears from your balance sheet?

MR. LLOYD: Yes.

SIR JOSEPH FLAVELLE: With regard to the railway accounting so far as the operation of manufacturing is concerned, you make some of your equipment, do you not?

MR. LLOYD: Yes sir.

SIR JOSEPH FLAVELLE: Are those accounts carried as a separate entity?

MR. LLOYD: No, they are carried in the general accounts.

SIR JOSEPH FLAVELLE: They will find their way there ultimately, of course, but are they carried as a separate entity?

MR. LLOYD: There is a special accounting for manufacturing, that is to say, we add a great deal more into

the cost of building equipment than we would in repairs of equipment. In the repairs of equipment, the cost of maintaining the shops goes to buildings and the cost of operating the shops goes to shop expense. In the case of manufacturing we assess against the operation a percentage representing the maintenance of buildings, insurance, and the running of the plants.

SIR JOSEPH FLAVELLE: And apart from the service rendered by the shops have you a separate profit and loss account?

MR. LLOYD: No.

SIR JOSEPH FLAVELLE: It finds its way into the general operating situation?

MR. LLOYD: Yes.

SIR JOSEPH FLAVELLE: And is cleared into your operating expenses of the year, plus or minus, as the case may be?

MR. LLOYD: Yes.

COMMISSIONER LOREE: I would like to ask Mr. Coleman this: taking the year 1913, the close of a normal period of operation and development, interrupted by the war and the great advance in the cost of materials and wages, could you let us have a general statement showing the wages paid to workmen and the cost of some of the principal items of material, 1913-1929?

MR. COLEMAN: Yes, I will obtain that.

COMMISSIONER LEMAN: In regard to the apportionment of expenses as between passenger and freight costs, what is the basis on which you make the division?

MR. LLOYD: There are certain expenses that are directly assignable, that is to say, wages, fuel and re-

pairs of equipment; and the maintenance of way is assigned on the basis of fuel consumption.

COMMISSIONER LEMAN: On the basis of fuel consumption as between the passenger trains and the freight trains?

MR. LLOYD: Yes. Then there are a lot of arbitraries that are introduced; there are certain expenses that cannot be directly assigned, and these are divided on the basis of the assigned expenses. There is a general formula issued by the Interstate Commerce Commission.

COMMISSIONER LEMAN: You follow the rulings of the Interstate Commerce Commission?

MR. LLOYD: We do and we do not. What I mean by that is we do not keep a current divisionof our expenses between freight and passenger. We do that probably once a year. There is no demand for it in this country.

THE CHAIRMAN: It is merely an application of the formula.

MR. LLOYD: Yes, to our figures.

THE CHAIRMAN: And the ratio established corresponds to the reality?

MR. LLOYD: Yes, very closely. We have tested that out and they run very closely. As a matter of fact if you split your expenses on the basis of your earnings you get practically the same thing.

LORD ASHFIELD: May I ask you now about your rights under your charter to deal with the construction of branch lines. Will you briefly explain what those powers are?

MR. COLEMAN: We have the right under our charter to build a branch line which is projected from a point on our main line as originally fixed, without applying for a

special act of Parliament. Any other branch line --

THE CHAIRMAN: Anywhere in Canada?

MR. COLEMAN: Yes.

LORD ASHFIELD: How do you acquire land for the purpose?

MR. COLEMAN: By negotiation.

LORD ASHFIELD: No other way?

MR. COLEMAN: No. Well, we have the right of expropriation.

LORDASHFIELD: That is what I meant. This right to build branch lines carries with it the right to expropriate land?

MR. COLEMAN: Yes, that is provided in the general Railway Act.

THE CHAIRMAN: All the compulsory powers with respect to the construction of railways.

LORD ASHFIELD: If you are not able to agree on a price with the owner of the land, what provision is made for compensation under the charter?

MR. COLEMAN: The charter makes no provision that I am aware of. The usual procedure is for each of the parties to select an arbitrator; they appoint a third, and the decision of the majority is final and binding. If the decision of the majority awards the owner less than the amount offered by the railway company, the owner pays the cost of the expropriation proceedings; if more, the railway company pays it.

COMMISSIONER LOREE: What time does the wheat harvesting begin?

MR. COLEMAN: It varies, but normally it begains about the third week in August.

COMMISSIONER LOREE: About what time would the shipments cease?

MR. COLEMAN: When the only outlet was through Lake Superior they pretty well closed down about the 10th of December, but now that the grain is shipped through Vancouver it can move throughout the winter.

(At 12.45 p.m. the Commission adjourned until 3.30 p.m.)

The Commission resumed at 3.30 p.m.

MR. LLOYD: May I correct a statement I made this morning, Mr. Chairman, about the preference stock?

THE CHAIRMAN: Yes.

MR. LLOYD: The Act permits the creation of such preference stock as may be authorized by a two-third vote of the shareholders at any special meeting called for the purpose, and limits the total issue to one-half the amount of the ordinary shares at any time outstanding.

THE CHAIRMAN: That means subscribed?

MR. LLOYD: Yes.

THE CHAIRMAN: That is what you said this morning.

MR. LLOYD: But that is with regard to the voting. The Act also provides that the new stock may be issued in sterling amounts and that the outstanding ordinary stock may be converted into sterling stock at the holder's request, every £20 of sterling stock, whether ordinary or preference, to have the same voting power as a share of $100 of ordinary stock.

THE CHAIRMAN: That seems, as you put it, to be limited to the sterling preference stock.

LORD ASHFIELD: It means, as I understand it, that the preference shareholders having their shares in dollars have at their option the right to have it exchanged into sterling. In the event of being exchanged into sterling for the purpose of identifying their voting rights it is based on a £20 value of stock in relation to $100 value of stock. That would result in a parity between the sterling value and the dollar value.

THE CHAIRMAN: What is the statute referred to?

MR. LLOYD: This is the annual report.

COMMISSIONER MURRAY: Did you not say this morning, four shares to one vote?

MR. LLOYD: Yes, but when I made the statement, four to one, I was thinking of our stock being split. The common stock was split four to one.

THE CHAIRMAN: Will you give me the reference to the statute?

MR. LLOYD: This is only the annual report, sir. "Your directors consider that it will be desirable that a portion of the cash reserves expended on capital account should be restored within a short time, and to this end, in order to implement and extend the powers of the company to issue forms of securities other than those it is already empowered to issue and which are more appropriate to present market conditions, have made application for an amendment to the company's charter permitting the issuance of bonds, debentures or other securities, collateral to or in lieu of any consolidated debenture stock which the company is or may hereafter be empowered to issue." So that we are empowered to issue these collateral bonds.

THE CHAIRMAN: You mean, convert your debenture

stock into debentures?

MR. LLOYD: Yes, and put up debenture stock as collateral.

COMMISSIONER LEMAN: May I ask if the debenture stock carries a mortgage on the property?

MR. LLOYD: It is the first charge on the property.

COMMISSIONER LEMAN: In the form of a mortgage?

MR. LLOYD: I do not know that it is exactly in the form of a mortgage.

THE CHAIRMAN: It is a floating charge. We will get that from the statutes.

COMMISSIONER LOREE: Could you give us a statement comparing the labour and material costs, gross income, expenses and net -- comparing the year 1913 with 1930?

MR. COLEMAN: Yes sir.

COMMISSIONER LOREE: The great rise in wages has not been overcome by the reduction in forces. Another question I wanted to ask was this: First, would the public, do you think, sanction the unification of all the roads in Canada under a private operation?

MR. COLEMAN: Well, that is a very difficult question, sir.

COMMISSIONER LOREE: What is your general impression? You live in the country and hear more or less discussion, and so on.

MR. COLEMAN: I think it would, if it was a considered recommendation of this Commission, supported by the necessary facts and arguments.

COMMISSIONER LOREE: Would it be more practical or more agreeable to the public sentiment, do you think, if they were united into two companies, one having all

the lines west of say Fort William and the other all the lines east of Fort William?

MR. COLEMAN: No, I do not think that would be acceptable. The objection to unification in any form is the old argument against monopoly. In that case you would have two monopolies in the country, one east and one west, and if the element of unpopularity enters into it at all it would be strong in both sections.

COMMISSIONER LOREE: Now, can you tell us something about the operation of the branch lines? Is it possible to suspend operation altogether on some of the branches, or can they be substantially reduced?

MR. COLEMAN: Well, we do substantially reduce the train services in winter months where that is possible.

COMMISSIONER LOREE: What is the extent of the extreme reductions you make?

MR. COLEMAN: We make a reduction on some branch lines to one train each way a week.

COMMISSIONER LOREE: When you do that do you make the round trip?

MR. COLEMAN: It depends on the length of the branch line.

COMMISSIONER LOREE: Or do you go up Monday and come back Tuesday, or something like that?

MR. COLEMAN: In some cases we go up and come back on the same day, in others consecutively.

COMMISSIONER LOREE: You can do that on account of the wage situation?

MR. COLEMAN: Of course any reduction in train service here has to be posted for ten days and notification given to the municipality and also to the Railway Commission.

COMMISSIONER LOREE: In your maps you indicate that there is a line north of Edmonton that is operated jointly by yourselves and the Canadian National.

MR. COLEMAN: Owned jointly but operated independently. It is an independent organization.

COMMISSIONER LOREE: To what extent do you think a joint operation of branch lines would be conducive to economy?

MR. COLEMAN: Not particularly in that area.

COMMISSIONER LOREE: Generally in this western region between the Rockies and the lakes.

MR. COLEMAN: I would not say there were very many opportunities for that. We have some lines, of course, which we have built and own jointly.

COMMISSIONER LOREE: Have you thought anything of the abandonment of any of your lines and the joint use of the remaining lines? What I had in mind was an operation such as from Kamloops to Vancouver, or between Ottawa and Montreal, where the lines seem to be very close together; or between North Bay and Fort William.

MR. COLEMAN: As to eastern Canada I am unable to speak. As far as the west is concerned we have never had any negotiations respecting the lines between Kamloops and Vancouver. We have had tentative discussions about the joint use of short pieces of mileage where the lines were parallel and close together.

COMMISSIONER LOREE: If there were unified control, to what extent do you think that would be carried out?

MR. COLEMAN: Under unified control there would be a very considerable extension of the principle, I should think.

COMMISSIONER LOREE: Tell me something about the line from Calgary to Petain and the line over from Macleod to Petain; what are the relative grades and lengths of those two lines?

MR. COLEMAN: Calgary to Lake Louise is a running one per cent. West bound of course there is a descending grade from Lake Louise to Field 2.2 per cent. Then you have a descending grade from Leanchoil to Golden, seventeen miles, of 2 per cent. Then we have one per cent from Leanchoil to Beavermouth, and then approximately ten miles of 2.2 per cent to the summit of the Selkirks; then a descending grade of 2.2 for twenty-five miles, and a running one per cent until you get to the foot of Notch Hill, which is nine miles long on each side; that is 1.9 per cent. Then from there to Vancouver it is all a one per cent grade, except where we reduced it for some fifty miles to four-tenths westbound.

COMMISSIONER LOREE: What about the line between Macleod and Petain?

MR. COLEMAN: Through the Crow's Nest Pass we have one per cent, and on Farron Hill, which is twenty-five miles on each side, we have 2.2. Then it is one per cent until you get to the summit above Okanagan Lake, when we have a descending grade of twenty-five miles, 2.2; then an adverse grade, twenty-five miles, of 2.2 to get out.

COMMISSIONER LOREE: One line has no particular advantage over the other, then, in the matter of grades?

MR. COLEMAN: No. The southern route is rather the worse of the two.

COMMISSIONER LOREE: The Yellowhead Pass seems to be substantially lower than the summits you mentioned, ex-

cept that around Jasper there seem to be no grades of any consequence -- that is, they are quite low. I wondered what would be the effect under unified operation of abandoning the line between Calgary and Kamloops and running through Edmonton instead of Calgary.

MR. COLEMAN: Well, the Yellowhead Pass, as you know, has a grade of seven-tenths of one per cent, and once you get over that it is practically a water grade into Vancouver. They are practically on the same parallel of latitude, and the distance from Calgary to Vancouver is one hundred and thirty miles shorter than it is from Edmonton to Vancouver.

COMMISSIONER LOREE: If you started back at Winnipeg or in that neighbourhood, that would not be so marked, would it?

MR. COLEMAN: No.

COMMISSIONER LOREE: I did figure it up from Montreal and it seems to be only a hundred miles longer from Montreal through Edmonton than from Montreal through Calgary.

MR. COLEMAN: But the heavy load rate traffic is westbound from Alberta to British Columbia.

COMMISSIONER LOREE: The lower section of Alberta.

MR. COLEMAN: Yes. Of course now that they are developing the Peace River country there will be a larger production in the north, but for the time being there is a larger production of grain in southern Alberta which would come into Calgary than there is in the territory which would come into Edmonton.

COMMISSIONER LOREE: Could you give us a map showing both the lines in different colours?

MR. COLEMAN: Yes.

COMMISSIONER LOREE: Showing where joint operation would be advantageous, indicating in each case the ownership of the line, also what lines could be abandoned in the case of single ownership. Taking a long look ahead, would you also show on the map what construction you think is going to be justified, not next year but ten or fifteen years from now.

MR. COLEMAN: You mean for the whole of western Canada?

COMMISSIONER LOREE: Yes. Is there a topographical map that illustrates the relation of this Peace River country to the western provinces?

MR. COLEMAN: Yes, there is a map here which I will show you. This shows the Canadian Pacific in red, the Canadian National in yellow, and in the white there is the Peace River line, which goes northeasterly to Fort McMurray on the Athabaska River and then northwesterly into the Peace River country to the Lesser Slave Lake.

COMMISSIONER LOREE: There is a good deal of talk in Vancouver about the advantage of using the Pacific Great Eastern as an approach to the Peace River. What do you say as to that?

MR. COLEMAN: Well, it is a shorter mileage to the coast,and presumably --

COMMISSIONER LOREE: Substantially?

MR. COLEMAN: Oh yes, because you have to back-haul all the way down to Edmonton from away up northwest.

COMMISSIONER LOREE: Would that be offset by the grades?

MR. COLEMAN: No, they could get an easy grade through the Peace Pass right down to Finlay Forks and then

down into Prince George.

COMMISSIONER LOREE: You would not necessarily be tied to the P.G.E., would you?

MR. COLEMAN: You could fit it in then.

COMMISSIONER LOREE: You could fit in the P.G.E?

MR. COLEMAN: Yes; but if the P.G.E. was not there, standing as a liability in the books of the Province of British Columbia, it would not be considered.

SIR JOSEPH FLAVELLE: Where would that line go if the P.G.E. were not there?

MR.COLEMAN: It would find an outlet probably at Prince Rupert or come back and go down the low grade line of the Canadian Northern and pick up from Prince George.

COMMISSIONER MURRAY: How about Obed?

MR. COLEMAN: That would still leave a large part of the country with a long haul, because the valley of the Peace River is about a mile wide and approximately a thousand feet deep, so that all the grain produced north of the Peace River would have to come away around the Peace River Landing, then come down east and south, and then come west and then go through the Smoky River valley, where the grades are heavy again, and then drop down to a point at junction with this new line.

SIR JOSEPH FLAVELLE: Where would the new line run?

MR. COLEMAN: From Obed to Aggie.

SIR JOSEPH FLAVELLE: I mean on the short line you speak of, up to Prince George.

MR. COLEMAN: It would run roughly northwest for a distance until it got through the pass, and down to Finlay Forks and then south into Prince George.

THE CHAIRMAN: Then assuming the P.G.E. not to be

there, it would go from Prince George east?

MR. COLEMAN: From Prince George west to Prince Rupert.

THE CHAIRMAN: I am speaking of Vancouver.

MR. COLEMAN: Or back to the junction here with the old Canadian Northern main line into Vancouver.

COMMISSIONER LOREE: On the map it looks as if some of these big hills would be about the grade of the big hills down through Edmonton.

MR. COLEMAN: On the present production you cannot economically justify any outlet to the Pacific at all.

SIR JOSEPH FLAVELLE: It is said to be about ten million bushels, is it not?

MR. COLEMAN: About fifteen million.

COMMISSIONER LOREE: What would justify it?

MR. COLEMAN: I should think it would take almost a hundred million bushels.

THE CHAIRMAN: Is that in prospect at all? Have you any evidence as to the probability of that?

MR. COLEMAN: There has been a great deal of discussion about it, and it has been in the programme of all political parties for some time. But the railways have taken the attitude that if it is built it will have to be financed over a term of years by the Government.

THE CHAIRMAN: In other words, it is premature?

MR. COLEMAN: Yes.

COMMISSIONER MURRAY: What is the rate on grain from this district?

THE SECRETARY: It averages about 28 cents a bushel from the Grande Prairie district to Fort William.

THE CHAIRMAN: What would the Pacific rate be?

THE SECRETARY: I cannot say; I think it is a little less.

MR. COLEMAN: The Edmonton rate is 26 cents to Fort William.

THE SECRETARY: The 28 cent rate is very recent is it not?

MR. COLEMAN: Yes, since 1925.

COMMISSIONER LOREE: What is the Edmonton rate to Fort William?

MR. COLEMAN: Twenty-six cents. I could not say what Vancouver is.

THE SECRETARY: It was the bushel I was quoting.

MR. COLEMAN: Twenty-six cents a hundred.

SIR JOSEPH FLAVELLE: Manifestly that grain should not go out through Fort William; it ought to go to the Pacific.

MR. COLEMAN: Oh yes, it does go.

THE SECRETARY: The other rates are in comparison, are they not?

MR. COLEMAN: Yes.

COMMISSIONER LOREE: I think if Mr. Coleman will put in writing his views on those different matters and let us have the map I asked for, it will be very helpful.

THE CHAIRMAN: You have spoken, Mr. Loree, of the abandonment of lines. I wonder if it would be presumptuous if we asked whether reduced services would take the place of abandonment.

COMMISSIONER LOREE: In many cases undoubtedly it would, but I am referring to lines which are so close together that one or the other is of no real significance in the transportation service. From Ottawa to Montreal, for

instance, there are three lines that seem to be very close together, and I was wondering whether one of them could be abandoned, even if running rights or trackage rights or something of that kind were substituted.

MR. COLEMAN: I think the most glaring instance is found in the three lines north of Lake Superior.

COMMISSIONER LOREE: Could the centre one be abandoned and running rights taken up on the Canadian Pacific?

MR. COLEMAN: Yes, I think so.

COMMISSIONER LOREE: Or joint ownership?

MR. COLEMAN: One of them could certainly be dispensed with for a large part of the way.

SIR JOSEPH FLAVELLE: Are there a considerable number of towns on the way already established?

MR. COLEMAN: I do not think so. On the Transcontinental from Winnipeg to Long Lake, where they join the other Canadian National railway, I do not think that would involve the abandonment of anything much.

THE CHAIRMAN: That is on the National Transcontinental?

MR. COLEMAN: Yes. They have a hotel at Minaki, but that can be reached by water from Kenora; it is only twenty miles.

THE CHAIRMAN: It is a summer hotel?

MR. COLEMAN: Yes.

SIR JOSEPH FLAVELLE: You would think that in that territory from North Bay to Winnipeg there might be occasion for considering the cutting out of an important mileage?

MR. COLEMAN: Certainly. Our line from Fort William to North Bay could handle double the traffic it is getting. Even if the Canadian National retained one, that

would amply provide for the future requirements, I should think.

LORD ASHFIELD: On the question, Mr. Coleman, of road transport, is there very much competition with your railway?

MR. COLEMAN: In the east of course there is a very great deal of competition. In the west we are protected pretty well by the climate in these prairie provinces, but still there is a considerable amount of it in Alberta as the roads are being improved between the northern and southern parts of the province, and the truck competes to some extent around the cities in the bringing in of live stock.

LORD ASHFIELD: Has your company any policy with respect to road transport?

MR. COLEMAN: It is covered in the report which has been submitted to the two railways. I was going to suggest that as far as our railway is concerned the proper officer to examine on that point would be Mr. T. E. McDonnell, President of the Canadian Pacific Express Company, who was very active in the preparation of that report.

SIR JOSEPH FLAVELLE: Is he here?

MR. COLEMAN: No, he is in Toronto.

LORD ASHFIELD: Do you suggest we raise this question with Mr. McDonnell?

MR. COLEMAN: Yes. It is a much more active question in the East than in the West.

THE CHAIRMAN: He could very easily bring his material to Ottawa I suppose?

MR. COLEMAN: Oh yes.

LORD ASHFIELD: Has your company any interest in the Gray Line coaches?

MR. COLEMAN: No.

LORD ASHFIELD: None at all?

MR. COLEMAN: None.

COMMISSIONER WEBSTER: In your western division do you use exclusively Canadian coal, or are you free to import the cheaper American coal, and is it economical to do so?

MR. COLEMAN: Over a short section of the line it is more economical to use American coal -- that is from Fort William to Kenora.

COMMISSIONER WEBSTER: Are you influenced by public opinion in the purchase of coal, as, for instance, the Canadian National is in the maritime provinces?

MR. COLEMAN: We are to a certain extent although we can base our purchases on sound economic principles. The only American fuel we use to any large extent, apart from the coal between Kenora and Fort William, is fuel oil, which we import from California.

LORD ASHFIELD: This morning you gave us many instances where the policy of the Canadian National railway in recent years had reacted unfavourably upon the policy of the Canadian Pacific, had forced you to do things which in other circumstances you would not have done.

MR. COLEMAN: Yes.

LORD ASHFIELD: When Sir Henry Thornton assumed the executive management of the Canadian National Railways, I take it his responsibility was directed solely toward establishing the financial success of the railway?

MR. COLEMAN: Yes, I assume that.

LORD ASHFIELD: He had no interest at all in the extent to which his policy might affect the financial fortunes

of the Canadian Pacific Railway?

MR. COLEMAN: Well, I cannot answer for him personally, but I should think as a servant of the Government he should have an interest in the future of the Canadian Pacific.

LORD ASHFIELD: Just put yourself in his place for a moment -- responsible for making the Canadian National system a financial success. You might take certain views; you might think that by doing certain things which the Canadian Pacific were not doing, the effect would be to improve the financial position of the Canadian National Railway. Could the Canadian Pacific object to that?

MR. COLEMAN: As I mentioned in my memorandum this morning, we do not object to what might be designated as fair competition, but we think it is injurious to the interests of both railways and the country to go to extremes in competing with each other.

LORD ASHFIELD: If what you describe -- and I accept your interpretation of it, whatever it may be -- as fair competition was actually the policy of the Canadian National Railway, and equally of course the policy of the Canadian Pacific -- assuming that position -- would that be satisfactory to the Canadian Pacific Railway?

MR. COLEMAN: I should think so.

LORD ASHFIELD: On that basis you could operate the two systems separately?

MR. COLEMAN: I should think so, yes.

LORD ASHFIELD: On that basis could you obtain the same net aggregate result as you would if the two undertakings were fused?

MR. COLEMAN: No, I do not believe that.

LORD ASHFIELD: You could not?

MR. COLEMAN: No.

LORD ASHFIELD: Your view is that only by a complete financial fusion of these undertakings is it possible to obtain the best results from a transport point of view -- by that I mean the financial results to the undertakings as a whole and to the Dominion of Canada?

MR. COLEMAN: That would be my opinion.

LORD ASHFIELD: That, you think, is a feasible proposition?

MR. COLEMAN: Yes.

LORD ASHFIELD: That they can be brought together and effectively managed?

MR. COLEMAN: Yes.

LORD ASHFIELD: Without damage to the interests of the Dominion of Canada?

MR. COLEMAN: Yes.

LORD ASHFIELD: That is your view?

MR. COLEMAN: Yes.

LORD ASHFIELD: Since the management of the Canadian National became effective in the sense of its impinging upon what you might have looked upon as the interests of the Canadian Pacific, what has been the policy of the Canadian Pacific Railway? Can you answer that question, or am I going too far?

MR. COLEMAN: I can answer you in general terms.

LORDASHFIELD: In answering it, are you speaking for the company or merely expressing a personal opinion?

MR. COLEMAN: It is a personal opinion. I think, perhaps, the question should be put rather to Mr. Beatty.

LORD ASHFIELD: Do you object to giving us your personal views?

MR. COLEMAN: Well, my personal view is that the Canadian Pacific has simply attempted to hold its position in the economic life of the country, and to make its proper contribution to the development of the country and at the same time to protect the interests of its shareholders.

LORD ASHFIELD: In carrying out that policy you have gone much further in capital expenditure and the provision of services than you would have if you could have disregarded any question of ownership of these undertakings?

MR. COLEMAN: Yes.

LORD ASHFIELD: Have you studied that problem sufficiently to form anything approaching an approximate figure representing what it has cost the Canadian Pacific Railway?

MR. COLEMAN: Competition?

LORD ASHFIELD: Yes.

MR. COLEMAN: I have not given it sufficient study to be able to give you a figure, but I know it runs into a very large sum -- not all loss by any means, but I mean anticipated capital expenditures beyond the necessities of the moment. They have gone into a very large sum.

LORD ASHFIELD: When you say a large sum, are you talking in hundreds of millions?

MR. COLEMAN: I would say that fifty millions would not be an exaggeration.

LORD ASHFIELD: Would you be able to give something approaching a figure as to the extent to which it has increased your costs of operation?

MR. COLEMAN: Can you work that out, Mr. Lloyd?

MR. LLOYD: Yes, I think we could develop a figure.

We could not do it here; we would have to do it when we get home, because I would have to work with my operating officials.

LORD ASHFIELD: It is suggested now that the absence of some kind of arrangement under which these undertakings might be brought together -- it does not matter how, but on some basis -- has been very prejudicial to the Canadian Pacific Railway, and in pursuing that line of inquiry the Commission would be greatly helped if we could have something in the way of figures for our consideration, so that if you could prepare a statement I think it would be of much assistance to us.

MR. LLOYD: Yes.

MR. COLEMAN: You want unnecessary capital expenditures and unnecessary increases in cost.

THE CHAIRMAN: Yes.

MR. LLOYD: The cost to us of the competition.

LORD ASHFIELD: I would like to take you just a step further, if I may. Up to the moment I have been dealing with the past, the effect upon your undertakings up to the present. Could you give us any forecast for the future if this present arrangement is to be continued, with two separate undertakings, one privately owned and the other supported by a national government? May I put it in another way: do you think it is possible for your company to be successful administered under the present plan?

MR. COLEMAN: I should think it would be most difficult to do so over a long term of years. I should expect that for the last few years, as the result of the present depression, we would not be troubled with the competition of capital expenditures to any extent, but after

that, as long as the present arrangement continues I could always see a certain amount of danger in the present system.

LORD ASHFIELD: In your experience is it to the advantage of the Canadian National Railway, where questions affecting the interests of the Canadian Pacific arise, that the Canadian National has behind it the public who own the undertaking?

MR. COLEMAN: Oh yes, it is very easy to mobilize public opinion in a quarrel between a publicly owned and operated utility and a privately owned one.

LORD ASHFIELD: It is not mere sentiment; it has a practical effect?

MR. COLEMAN: Yes.

LORD ASHFIELD: In the operation of these undertakings?

MR. COLEMAN: Yes.

LORD ASHFIELD: When any extension is under consideration what steps does the Canadian Pacific Railway take in the matter? Does that problem come before any public board so that the interests of the Canadian National may be heard?

MR. COLEMAN: Yes. If the line is to be built under private act, notice must be given in the Canada Gazette five weeks before the opening of Parliament. Then the bill is introduced in the House and usually referred to the Railway Committee of the House of Commons, before which any interested parties may appear. After it has passed that Committee it returns to the House, is sent to the Senate and goes through the same procedure there. Any person can appear before the Senate Committee. After the act is passed the company has to submit plans to the Board of Railway Commissioners -- what they call a route map -- and

again anybody who is interested -- other railways are usually notified -- may appear before the Railway Commission and present his views regarding the general route of the line. After that the company must file a location map showing the exact properties over which it will pass, and then again interested parties are notified. So that the branch line is under fire before two Houses of Parliament and the Board of Railway Commissioners before it is finally approved.

LORD ASHFIELD: Could you answer this qestion: the fact that this branch line is a promotion of the Canadian Pacific Railway which might, if given effect to, prejudice the position of the Canadian National, assuming it might be looked upon as competitive or possibly competitive at some future time -- does that prejudice your company?

MR. COLEMAN: Yes; if the Canadian National can make out any case of injury to their interests, it does usually mean that the bill is rejected by the House.

LORD ASHFIELD: In your view is there a prejudice in favour of the Canadian National Railways in matters of that kind?

MR. COLEMAN: I do not know that I would use the word "prejudice", but I think they get the benefit of the doubt in every case.

LORD ASHFIELD: Put it another way, then: is there a tendency to favour the Canadian National Railway?

MR. COLEMAN: Yes, decidedly.

COMMISSIONER WEBSTER: You mean in Parliament?

MR. COLEMAN: Yes.

LORD ASHFIELD: Then conversely, if it is a branch line promoted by the Canadian National Railway, is your objection, assuming you do make objection, prejudiced because

it is the Canadian Pacific and not a nationally owned railway?

MR. COLEMAN: Well, I would say the same condition would apply. Of course their procedure in the matter of branch lines is different. In such a case the Canadian National present their budget and their plans to the Minister of Railways. If he and the Minister of Finance approve it, it is brought down as a government bill, whereupon it passes through the same courses as our bill; it is referred to the Railway Committee of the House of Commons. We can, if we wish, appear there and oppose it, but as you can understand, it is introduced as a government bill once it has been passed upon by the two Ministers, and it is a very difficult thing indeed to expect the Committee to throw it out.

LORD ASHFIELD: Let us summarize it in this way -- I will put it to you as plainly as I can: you hold the view that the provision of a system of transport through a system which is nationally owned and one that is privately owned, the two in many respects competing with each other, has operated to the disadvantage of Canada as a whole; that if in this period of years there had been a uniform system of railway transportation for Canada -- I am not asking you whether it should be nationally owned or company owned -- there would have been a substantial saving in capital expenditure and in operating costs, and that through the economies thus effected there would have been an advantage to those who use the railway systems?

MR. COLEMAN: Yes, I do.

SIR JOSEPH FLAVELLE: During the period you have been

forming the views you have now expressed, has your company or has the Canadian National, either one of you with the other, made any attempt to carry freight and passengers over this whole country by friendly in place of unfriendly competition?

MR. COLEMAN: Well, I said this morning, sir, that it was very hard to find an exact point where fair and unfair competition met or separated.

SIR JOSEPH FLAVELLE: Has it been a part of the policy of the senior executives of the two railways during these years to seek to find a basis for friendly cooperation?

MR. COLEMAN: Well, I could not answer that question.

LORD ASHFIELD: Do you think it is practical politics to hope for the existence of friendly cooperation on such a scale as would secure the results you think ought to be attained?

MR. COLEMAN: Past experience would not give us much encouragement to think so.

SIR JOSEPH FLAVELLE: You mean you have tried intensively to have such cooperation?

MR. COLEMAN: I would not like to say that, because of course I cannot speak for the executive of the company. But I do say that as far as our own administration in the western lines is concerned, we have tried to live amicably and we have where possible disposed of questions of dispute without friction.

SIR JOSEPH FLAVELLE: During recent months there has been an attempt at amicable cooperation, when things were going hard? A new situation has developed in that respect

during the last year?

MR. COLEMAN: Yes. We would attribute that to a change of heart on the part of the Canadian National.

SIR JOSEPH FLAVELLE: Not a change of heart on your own part?

MR. COLEMAN: I do not know what they would say.

SIR JOSEPH FLAVELLE: Neither do I. Let me ask another question. I take it you would agree with me that the railroads have only a right to their own side of the case; that the public whom you serve have a right to be heard?

MR. COLEMAN: Undoubtedly.

SIR JOSEPH FLAVELLE: Do you consider that the interests of the public would be preserved if a monopoly of railway interests were established?

MR. COLEMAN: I think they could be properly preserved.

SIR JOSEPH FLAVELLE: By what means?

MR. COLEMAN: By legislation and regulation.

THE CHAIRMAN: You mean legislation establishing a regulating authority, I presume?

MR. COLEMAN: Yes.

COMMISSIONER LOREE: Would the Canadian Pacific be amply able to take care of itself if the lines of the Canadian National were in private hands?

MR. COLEMAN: I believe so.

COMMISSIONER LOREE: Would you give the Commission an estimate of the movement cost of moving ten million bushels of wheat from Calgary to Vancouver over your own rails and over such lines as you would select from here to Edmonton and

down to Vancouver in one movement, assuming all the cars came back empty.

THE CHAIRMAN: You are referring to some point in Saskatchewan from which the shipment would go to Vancouver.

COMMISSIONER LOREE: They would have to use an existing line, of course.

SIR JOSEPH FLAVELLE: Following the query of Mr. Loree, and in association with what I said with respect to the interests of the public being secured against a monopoly, have you thought whether there was any plan whereby the administration of the public property by a Board the majority of whom were not named politically could be effective for the purpose of carrying on in competition with that corporation?

MR. COLEMAN: I should think it would be a great improvement.

THE CHAIRMAN: Are you referring, Sir Joseph, to competition between a publicly owned system such as we have in the Canadian National and the privately owned system, the Canadian Pacific? That was not the question?

SIR JOSEPH FLAVELLE: No sir. You said, Mr. Coleman, that if the competing line were not owned by the public but were owned privately, you believed you would get along. Now, if the publicly owned property were administered by a board of directors the majority of whom were not politically selected, would that be effective?

MR. COLEMAN: That would be a great improvement from the standpoint of a private competitor, because the difficulty about the publicly owned railway from the standpoint of a competitor is that no doubt they are compelled by local agitation and by the force of public opinion to do

things which would not commend themselves to their business sense, and any arrangement which would reduce the danger of that would be an improvement.

SIR JOSEPH FLAVELLE: It has rather been represented that in the branch line competition in the West the Canadian Pacific would seem to have penetrated the Canadian National territory to as great an extent as or even to a greater extent than the Canadian National has penetrated the Canadian Pacific territory. Have you made a study of that at all?

MR. COLEMAN: Yes, I think you will find that to some extent covered in this mrmorandum.

SIR JOSEPH FLAVELLE: The one you read to us this morning?

MR. COLEMAN: No, in schedule P-A at page 2. I pointed out there that not only were lines carried into territory just entering on the settlement stage, but that areas already provided with means of transportation were invaded by rival enterprises anxious to secure connection with established distributing centres and to divide the traffic from the older grain growing districts. That was during the period of the Canadian Northern and the Grand Trunk Pacific, and they invaded practically all of the territory that had been developed by the Canadian Pacific. They established connections with all the distributing centres, such as Regina, Moose Jaw, Calgary, Brandon, and then at the close of the war after the period of reconstruction started, the Canadian National said -- these were informal talks: "We will let you retain and serve all the country south of

the present line which you now serve, and we will take all the country to the north." Well, as the country to the north is developed to a much greater degree, and as the production there will fall rather than increase, we thought that was an arrangement which we could not possibly agree to, and we reserved our right to build railway lines in the north, although some of the Canadian Northern lines had been the first to cross certain areas. Attached to that memorandum you will find a statement with respect to every branch line we built. It would leave, in other words, the virgin country to our competitors.

SIR JOSEPH FLAVELLE: Have you a graph showing that?

MR. COLEMAN: I can prepare one.

SIR JOSEPH FLAVELLE: Showing your penetration into what you might call Canadian National territory, and contra, the Canadian National into yours?

MR. COLEMAN: The Canadian National only, or are we going back to the time the constituent parts invaded our territory?

SIR JOSEPH FLAVELLE: We are dealing with what has happened since the individual railways other than the Canadian Pacific came into one corporation.

MR. COLEMAN: We will prepare a chart showing our lines in relation to the nearest Canadian National lines, but we are not conceding the point that the northern country belongs to them or that the southern country belongs to us.

THE CHAIRMAN: I rather understood you to say you took that position before the amalgamation in connection with the Canadian Northern -- that it was not their special territory, and that you had the right to build.

SIR JOSEPH FLAVELLE: That surely must be true, Mr.

Chairman; there is no territory allotted to anybody either by act of Parliament or by act of God. But these two executive bodies have been carrying on the operation of two lines of railway, and, each one considering the other the aggressor, there has been an impact which has resulted in a condition that leads this Commission to sit in order to ask why it occurred and to endeavour to find a remedy of a common sense character that would meet the judgment of the executives of both systems as well as of the community at large.

MR. COLEMAN: Practically none of these lines were built under our general charter; they were all built under the charter of a special act of Parliament, which means that there were public hearings and that the Canadian National had the right to appear -- and usually did so -- and state their objections. If we were given the charter, it was the considered judgment of parliament, having heard all the facts.

COMMISSIONER LEMAN: Most of the branch lines were built under special act of Parliament?

MR. COLEMAN: Special act of Parliament.

SIR JOSEPH FLAVELLE: Practically all of them?

MR. COLEMAN: Well, there were one or two built under our general charter.

THE CHAIRMAN: You have built branch lines under your charter, have you not? I am sure you have.

SIR JOSEPH FLAVELLE: There is no such power in the charters of the others.

MR. COLEMAN: But they can build without any charters so long as they secure the approval of their route map by the Minister of Railways.

SIR JOSEPH FLAVELLE: Without an act of Parliament?

MR. COLEMAN: Yes.

SIR JOSEPH FLAVELLE: You mean there is a distinction between the Canadian Pacific and the Canadian National in that the Canadian National can, by going to the ministry, secure authority to build branch lines by simply putting down a route map?

MR. COLEMAN: Yes, but of course remember that they have to go to Parliament for the money and to specify the purpose of the line.

SIR JOSEPH FLAVELLE: Is that not a definite control by Parliament?

MR. COLEMAN: Yes, but they do not have to file their route map or give us any notice of it. They can have their route map approved by the Minister and we know nothing of their plans until the bill comes up in the House.

SIR JOSEPH FLAVELLE: When you wish to build you must file your route maps, and the Canadian National has an opportunity to present reasons why you should not be granted the privilege, and it is not necessary for the Canadian National to follow the same course -- that is what you indicate?

MR. COLEMAN: Yes, and they do not have to file their route map subsequently with the Railway Commission.

SIR JOSEPH FLAVELLE: Why the discrimination between the two railway corporations?

MR. COLEMAN: I cannot answer that.

LORD ASHFIELD: Is any public hearing involved in the promotion of a branch line by the Canadian National Railways?

THE CHAIRMAN: In some cases yes, in some cases no.

SIR JOSEPH FLAVELLE: As a matter of fact evidence

has been submitted to us during this trip that the Canadian National Railway branch lines programme, approved by the House of Commons and rejected by the Senate, was followed immediately by an application from the Canadian Pacific for branch lines in that northern territory, which was passed by the Commons and approved by the Senate. I do not know whether that is a correct statement, but evidence has been submitted to that effect.

MR. COLEMAN: No, that is not quite an accurate statement. There were one or two years when the Canadian National branch lines programme was rejected by the Senate, and in the meantime we pursued our plans, which had no relation to that rejection by the Senate.

SIR JOSEPH FLAVELLE: I do not think they indicated that it had, but it synchronizes with the period.

MR. COLEMAN: If I am not mistaken, since the Senate cannot amend a money bill they had to reject the whole thing because they objected on certain lines.

SIR JOSEPH FLAVELLE: Am I right in suggesting that when you were supplying practically the only service in the West -- as excellent a service, I have no doubt, as you thought was prudent having regard to the proper administration of your company -- there was a good deal of objection on the part of the West that you had no competitor to compel you to do differently, and they called you monopolists, as they used to call the Grand Trunk in the East in the old days before you came in to compete with them. You have heard of that?

MR. COLEMAN: Yes, I think that monopoly cry will always arise, no matter whether it is a benevolent corporation or a wicked one that is serving them.

COMMISSIONER LEMAN: I think in your report, in a short paragraph, you refer to comparable rates as between Canada and the United States. Would you have at hand or could you procure something more definite in that regard so that we might have a useful basis for comparison?

MR. COLEMAN: I have here a comparison of the grain rates north and south of the international boundary which has been corrected up to date, since a recent decision of the Interstate Commerce Commission. It gives a comparison of the mileage rates.

COMMISSIONER LEMAN: I presume this can be filed, Mr. Chairman.

THE CHAIRMAN: Oh yes.

SIR JOSEPH FLAVELLE: I suppose, Mr. Coleman, it can be said that in connection with the building of the Crow's Nest Pass line and the covenant made at that time by the Canadian Pacific as to the rates which would be given by reason of the loan of $3,500,000, that was the inception of the movement which afterwards spread much wider than the particular agreement you had made, and extended to the east, even as far as Halifax, in the demand for relative rates?

MR. COLEMAN: Yes.

SIR JOSEPH FLAVELLE: It originated with the Crow's Nest Pass agreement?

MR. COLEMAN: Yes.

SIR JOSEPH FLAVELLE: With the result that the Canadian railways are penalized as compared with the American railways, which cover a much more populous territory and have available much larger tonnages of freight apart from grain.

MR. COLEMAN: I would qualify that, Sir Joseph, by

saying that geographically our farmer is at a disadvantage because of the fact that his market is largely overseas and he must get some compensation in rates to enable him to have the same level of prosperity as the American producer.

SIR JOSEPH FLAVELLE: That is, the United States farmer for the most part finds a market in the United States?

MR. COLEMAN: To a large extent.

SIR JOSEPH FLAVELLE: Whereas the Canadian has to find his market for the most part abroad?

MR. COLEMAN: Yes. And there were lower rates also by agreement than the Crow's Nest rates afterwards introduced -- that is the agreement between the Canadian Northern Railway and the Manitoba Government.

SIR JOSEPH FLAVELLE: Under the local charter?

MR. COLEMAN: Yes. Those have been wiped out since.

COMMISSIONER LEMAN: Mr. Coleman, where would be the dividing line as between grain and grain products going to Fort William and those going towards Vancouver?

MR. COLEMAN: My impression is that the railway rates break at Swift Current -- that is subject to correction.

SIR JOSEPH FLAVELLE: That would be Swift Current on your line and up to Saskatoon on the other line?

MR. COLEMAN: West of Saskatoon.

(Page 300 follows)

COMMISSIONER LEMAN: Have you any figures available as to water borne rates on grain and grain products from Vancouver to Liverpool as compared with similar rates from Port Arthur and Fort William to Liverpool?

MR. COLEMAN: I have some figures worked out here showing the average cost of moving a bushel of grain from the prairie provinces to the British market. I cannot put my finger on it at the moment.

THE CHAIRMAN: You can let us have that.

COMMISSIONER MURRAY: There is a local rate for grain. Mrs. Wait brought up the question. Do the local rates for grain compare with the American rates at all?

MR. COLEMAN: I have never looked that up, Doctor, but I will do so and advise you. That is between local points?

COMMISSIONER MURRAY: Yes. These are export rates.

MR. COLEMAN: Yes.

COMMISSIONER MURRAY: If the grain is to be shipped between points in Canada the rates are local. Are they comparable to the American rates?

MR. COLEMAN : I will have to ascertain that.

COMMISSIONER MURRAY: Have the Crow's Nest Pass rates actually entailed a loss on the railways? They have reduced the revenues, but have they actually entailed a loss? That is, is the grain carried at a loss instead of at a very small profit?

MR. COLEMAN: I should not like to say they are carried at a loss, no.

MR. LLOYD: We made a separation some years ago and we found there was a profit, but it did not contributeany- thing like its share to fixed charges and dividends in

comparison with other freight.

THE CHAIRMAN: At page 49 you say: Our losses from this particular reduction -- that is the reduction which took place by statute in 1927 -- has been estimated at a million per annum.

MR. LLOYD: I think that is when they applied the Crow's Nest Pass rates where they had not been before.

THE CHAIRMAN: You did notmean there to include the whole effect of the Crow's Nest Pass rates?

MR. LLOYD: No.

THE CHAIRMAN: It was merely that extension which took place in 1927?

MR. LLOYD: Yes. We had a loss of revenue.

THE CHAIRMAN: Has it been on any occasion considered what would be the possible reduction of traffic by the removal of what one might call the Crow's Nest Pass limitation?

MR. COLEMAN: I am afraid it would have an injurious effect.

THE CHAIRMAN: On the volume of traffic?

MR. COLEMAN: Yes, and the development of western Canada.

THE CHAIRMAN: Then you would say the same about the other figure of $500,000 which you state you have lost by reason of the extension of the Crow's Nest Pass principle to the grain moving west?

MR. COLEMAN: Yes. I never thought that was a just decision.

THE CHAIRMAN: I see. You do not put that on the same basis as the other?

MR. COLEMAN: No.

THE CHAIRMAN: Would you mind explaining that?

MR. COLEMAN: From the fact that you would never get the density of traffic there which enables us to operate cheaply through the other gateway, and then there is the mountain operation. There is one point, Dr. Murray, I should like to make clear. Those domestic grain rates to which you refer do not cover grain milled in transit in Canada; that gets through export rates.

LORD ASHFIELD: So far as you know, Mr. Coleman, is there any tendency on the part of shippers and users of the railways in the competitive areas to favour the nationally owned system?

MR. COLEMAN: Some years ago there was a decided feeling of that kind in evidence. I think it is much less strong now. But certainly the average man in the competitive field has a tendency to give the publicly owned line at least an even division of his traffic. He would not have the same feeling as in the case of two private lines.

COMMISSIONER LOREE: I understand the argument made by the soliciting agents of the Canadian National was this: Some way or other you have to pay for this service; you can pay for it by giving us your business or in your taxes.

THE CHAIRMAN: Support your own line.

MR. COLEMAN: That had a powerful influence.

THE CHAIRMAN: I think everybody recognized that.

COMMISSIONER WEBSTER: You stated that under a combined consolidated system great savings could be effected. You told Sir Joseph that if the Canadian National Railways were practically a private organization, directed by men who were not political appointees, there would be an improvement on the present situation. Now, I should like to know for my own guidance -- and it will certainly have to come

up at some time or other -- which of these two you think would effect the greatest economies in operation and be most helpful in improving the general financial condition of the country.

MR. COLEMAN: I consider consolidation would.

THE CHAIRMAN: In answer to a question put to you, I think by Mr. Loree, you said if the Canadian National system were owned and operated privately you considered the Canadian Pacific could keep on holding its own.

MR. COLEMAN: Yes.

THE CHAIRMAN: I think that was the phrase Mr. Loree use in putting the question. Now, by that had you in mind the possibility of amicable arrangements with regard to duplication and competition? or did you mean that competition or no competition you felt you could hold your own?

MR. COLEMAN: I meant that competition or no competition we could hold our own.

COMMISSIONER WEBSTER: Could you make as much money as in past years up to this period of depression?

MR. COLEMAN: With a private competitor?

COMMISSIONER WEBSTER: Yes.

MR. COLEMAN: I think so.

THE CHAIRMAN: You gave an answer that rather pointed to gloomy anticipations with regard to the future of your line if the present situation continues.

MR. COLEMAN: I referred to the statement of Mr. Beatty in his opening speech to the Commission.

THE CHAIRMAN: Yes. I merely wanted to put this to you. Have you considered in relation to the present situation -- including of course the ownership of your competitors by the government and all that that involves with

respect to deficits being supplied out of the public treasury and so on -- the possibility of a public authority exercising control not merely over rates, that is, not the kind of control exercised by the Board of Railway Commissioners at present, but control over the construction of branch lines, the duplication of service, and that kind of thing?

MR. COLEMAN: Yes, I have thought of such a body having control of all capital expenditures whether they related to branch lines or not.

THE CHAIRMAN: And with what result?

MR. COLEMAN: Well, it seemed to me that it would be difficult to get legislation which would make an arrangement of that kind very effective.

THE CHAIRMAN: That is to say, you find it difficult to think of a plan that would be practically workable?

MR. COLEMAN: Yes, without actually taking the control of the properties out of the hands of the responsible government today on the one hand and the shareholders of the Canadian Pacific on the other.

THE CHAIRMAN: In other words, anything short of what would substantially amount to amalgamation you think would be very difficult to work out?

MR. COLEMAN: Yes.

SIR JOSEPH FLAVELLE: In substance do I understand your view to be this? The difficulty is not with competition, but the unfairness and inequality that cannot be remedied by the executives under such circumstances by reason of their being a public owned system in competition with a privately owned system. You do not object to privately owned systems in competition with you; you do

object to a publicly owned property in competition with a privately owned property?

MR. COLEMAN: Yes, I object to the unfairness in the general form of competition.

COMMISSIONER WEBSTER: Mr. Coleman, coming to operating management, do you consider the C.N.R. staff are practically as efficient as the staff of the C.P.R?

MR. COLEMAN: Well, I am not capable of judging that. I certainly would not suggest that they were not efficient.

COMMISSIONER WEBSTER: The question of course arises always: Can the C.N.R. system ever be made to pay its way and stop being a drain on the country?

MR. COLEMAN: Well, I would expect an operating officer on a government owned road would have much more difficulty in preserving discipline and preventing interference with discipline than the operator of a privately owned road.

THE CHAIRMAN: Your objections, Mr. Coleman, so far as one gathers from the expressions you use at all events, are really not directed to any special idiosyncrasy in the present management of the Canadian National, but to the position of the system in the various ways you have indicated as a publicly owned system?

MR. COLEMAN: Yes.

THE CHAIRMAN: And to a very considerable extent the directing of its capital expenditures by a member of the government not being any particular Minister?

MR. COLEMAN: I would suggest of course that one management of the Canadian National system might be much more aggressive and have less sense of responsibility than another.

THE CHAIRMAN: Quite so.

MR. COLEMAN: But it is the principle of the thing to which I object.

THE CHAIRMAN: Yes.

SIR JOSEPH FLAVELLE: Mr. Coleman, might I ask you this question? You are very large buyers of all sorts of commodities necessary for the operation of a railway. Would you feel content if all the commodities you were buying were under the control of a single corporation from the Atlantic to the Pacific, and would you think you could buy as favourably as if there were competition between those who were supplying you with your lumber, coal, steel and other commodities? That is to say, in your judgment can you entrust to any single executive the control of production and distribution of individual materials and feel that the buyer will thereby have the same safety and the same service as he would have if there were competitors in the field? In other words, do you consider that human nature being what it is can be entrusted with exclusive power?

THE CHAIRMAN: In other words are you Socialist or Communist?

MR. COLEMAN: If you are applying that to the railway situation, Sir Joseph, I do not think the conditions are parallel at all, because railway rates and services are regulated by an independent board to an extent which does not apply to any other business, and it would be easy to throw safeguards around any so-called monopoly which in my opinion would amply protect the public.

COMMISSIONER LOREE: I will give you an instance. Railway rates in the United States are fixed by the

Interstate Commerce Commission. The distance from Duluth to Glasgow is 783 miles -- they fixed the rate at 34 cents; the distance from Kansas City to Port Arthur is 778 miles -- 5 miles shorter -- and they fixed the rate at 21 cents. Now, on what basis could they so discriminate as between citizens of the United States?

SIR JOSEPH FLAVELLE: I suppose Galveston is what governs.

COMMISSIONER LOREE: I think the consideration was purely political, and exercised for purely selfish reasons.

THE CHAIRMAN: But you are not dealing with a single system of railway, or even with a government owned system; you are dealing with a multiplicity of railways and the action of a government regulating body similar to that which we have in this country today

SIR JOSEPH FLAVELLE: And which interprets the powers given it by Parliament for the purpose of establishing rates.

THE CHAIRMAN: I would be very much surprised if some people at all events did not think they could point to anomalous rates in this country just as striking perhaps as those which you have mentioned.

COMMISSIONER LOREE: Perhaps.

SIR JOSEPH FLAVELLE: Of course, from the other point of view, if you cannot trust a board that has a trustee relationship, how can you trust an individual administrative body to interpret what is good for the community?

COMMISSIONER LOREE: There were competitive conditions, there was no monopoly.

SIR JOSEPH FLAVELLE: Of course, you have in the United States highly competitive conditions.

THE CHAIRMAN: I suppose rate fixing is a matter that

can be more easily brought to just criticism probably than these other matters we are talking about of determining whether or not a particular service should be continued. It would be exceedingly difficult to find cases so nearly parallel.

Mr. Coleman, it is ten minutes past five, and I think we have taxed you sufficiently for the day. Thank you very much.

At 5.10 p. m. the Commission adjourned.

ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

The Royal Commission appointed to inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future developments of the country, met in private conference on the special train en route, Wednesday, December 16, 1931.

PRESENT:

Right Hon. Lyman Poore Duff, P.C., Chairman

Right Hon. Lord Ashfield,	Commissioners
Sir Joesph W. Flavelle, Bart.,	
Beaudry Leman, Esq.,	
Leonor Fresnel Loree, Esq.,	
Walter Charles Murray, Esq.,	
John Clarence Webster, Esq.,	

Arthur Moxon, Esq.,K.C., Secretary

Officers of the Canadian National Railways

A. E. Warren, Vice President, Western Lines,

S. W. Fairweather, Director of the Bureau of Economics,

C. S. Gzowski, Chief Engineer of Construction

Officers of the Canadian Pacific Railway

D. C. Coleman, Vice President, Western Lines,

T. C.MacNabb, Engineer of Construction, Western Lines,

J. M. R. Fairbairn, Chief Engineer.

Western Tour,
En Route Vancouver-Winnipeg,
Wednesday, December 16, 1931.

PRIVATE CONFERENCE

The Commission met at 2.15 p.m.

SIR JOSEPH FLAVELLE: Mr. Chairman, in our proceedings during this railway journey we have had views presented to us by letter, by memorandum and by personal statement. These have become matters of record and will be available for consideration later.

During the last forty-eight hours there has been presented to us a somewhat interesting statement that we thought we should like the representatives of both railroads to take into consideration in case it became a matter for serious comment subsequently, and that perhaps at this meeting you might feel disposed to discuss the possibilities of the physical aspects which were brought to our attention.

A suggestion was made to us to consider, in the event of there continuing to be two systems of railways, whether portions of the respective roads could be used jointly for the sake of economy without injury to the service, whether there could be a reduction of lines, and whether there could be a reduction of trains. Broadly the districts mentioned were :

1. The mountain section entering British Columbia.

If I remember rightly, special reference was made to the possibility of fusion of interests from Kamloops to Vancouver.

2. The district in northern Ontario served by two lines of the National Railway and by one line

of the Canadian Pacific Railway.

A mutual service was suggested over what would be considered practical from an engineering and operation point of view, whereby in place of operating three lines, two or one would be sufficient.

3. The district between Toronto and Montreal and between Montreal and Ottawa.

It was suggested that by the two railways working together it would be possible to use one of the existing lines to perform the service of the two, or that two lines should be used to perform the service of three.

4. New Brunswick and Quebec.

Whether it is possible to develop a joint working service that would lead to a reduction in the tracks now operated.

In order that you may have a cue to what was in the mind of the speaker who developed the subject, he referred to the situation which you yourselves solved in the Peace River district by acquiring jointly the provincial lines from the government of Alberta and forming what is now known as the Alberta Railways Company. He used that as an illustration of what might be effected in these other districts if the matter were before you.

Now, Mr. Justice Duff has been kind enough to ask me to make this statement to you because I thought that with this representative body of operating and other technical officers of both companies on board the train, it might afford an opportunity for you to talk over the matter together. Necessarily of course we had no thought that you could deal with it definitely apart from your senior executives, who naturally would have to have it presented to them;

but that the seniors having it before them would refer it to the operating and engineering officers to see what sort of picture could be worked out if the general principle were adopted. I do not think the Chairman expects you to discuss the merits of it, but simply to sit down with us and talk together concerning what the gentleman to whom I have referred thought might be an important improvement.

MR. COLEMAN: I was present, Mr. Chairman, when one of the railway presidents appeared before the Commission, and my recollection is that he was then requested by the Commission to go into the subject with the executive of the other railway company and see if something could not be worked out along those lines. I presume a similar invitation was extended to the president of the other railway.

THE CHAIRMAN: Quite so.

MR. COLEMAN: I am quite sure they are working on that problem now, and anything I might say so far as our company is concerned would be subject to any plans which were being formedin the east.

THE CHAIRMAN: Of course, Mr. Coleman, we did not expect from you any expression of opinion offhand. We wondered how far you could help the thing along by applying your minds to it.

MR. COLEMAN: Was there any reference, Sir Joseph, in those representations to joint terminals?

SIR JOSEPH FLAVELLE: There was, and I thank you for reminding me. There was reference to a possibility of joint terminals in a good many places, and the gentleman mentioned one place at least where there were two stations in a small village, and he thought if the two railways were to agree it would be possible in a number of villages to

have one railway station do for both railways. Mention was also made of telegraph and express services.

THE CHAIRMAN: There was some reference made to hotels also. But that particular suggestion mainly concerned the stretches between the prairies and the coast.

SIR JOSEPH FLAVELLE: I think he stressed the fact that those territories were themselves non-productive, they were simply bridges to carry freight to the terminal points, and he wondered if they could not be worked in common.

MR. COLEMAN: We have joint terminals in the west at Prince Albert, North Battleford, Swift Current and Regina.

MR. WARREN: And at Humboldt and Melfort.

MR. COLEMAN: Yes. Suggestions have been made that we might have joint passenger facilities at Calgary and at Edmonton. The difficulty at Calgary when the subject was broached was that our railway facilities were very inadequate for our own use. As a matter of fact we had in contemplation if this depression had not arrived, enlarging our station, in which case we did say we would be glad to afford facilities for the Canadian National; but they thought it should be reciprocal to the extent that we should make use of their facilities at Edmonton. That of course has been held off by the fact that there has been no extension at Calgary.

MR. WARREN: As far as we are concerned, Mr. Chairman, we should be only too glad to go into the matters you suggest and in the spirit you have mentioned. As a matter of fact we have several things that we have been trying to work out between ourselves in the west from time to time, such as joint operation of the lake head terminals. Indeed we do a lot of joint switching at the head of the lakes right

now. Mr. Coleman and myself feel we might advance that very materially. Whether or not we can get rid of the whole operation by one amalgamation it is almost impossible at this moment to say, but we have in mind elimination of as much duplication as is practicable.

I can only add that it must be understood that the official approval of any recommendations that I might make will have to rest with my president and some other executive officers.

THE CHAIRMAN: Of course.

MR. WARREN: Mr. Coleman and I suggest that we go into conference and see what other things we have got on our minds that would be for the general welfare.

MR. COLEMAN: That is perfectly satisfactory to me, Mr. Chairman.

THE CHAIRMAN: That is as far as we can go at present, I think.

SIR JOSEPH FLAVELLE: One could not travel over the prairies as we have been this morning without seeing how near some of the services are, and wondering whether there would not be a possibility of a joint service over one line of tracks. I do not want you to answer that suggestion. I only make it in order that when you are giving the matter consideration you may think of that aspect of it.

MR. COLEMAN: I think you saw one of the most flagrant cases of duplication in the west this morning -- the sins of our fathers. That is one of the lines we might perhaps properly discuss.

COMMISSIONER LOREE: Mr. Coleman, I find on reading Mr. Alfred Smith's report that he makes the broad suggestion of dividing the lines at the head of the lakes between

western lines and eastern. I see political objections to that and perhaps operating objections. As I listened to the testimony at our meetings the wonder grew in my mind whether three districts could be created: Say a district from Edmonton and Calgary, taking everything west of those points; a district between Winnipeg and North Bay, and a district west of Levis where the lines could be thrown together with advantage to the joint interest of both companes. Perhaps in that case some assistance could be given by the government to carry what is perhaps unproductive mileage. I am not asking for an answer, I am just supplementing Sir Joseph's suggestion.

SIR JOSEPH FLAVELLE: That is all I had in mind, Mr. Chairman, unless there is something, gentlemen, that you could have some conversation about while we are gathered together. Your report, Mr. Warren, is nearing completion?

MR. WARREN: It is. Part of the branch line report is ready now. The station earnings have to come from Montreal, but we can give you a general idea of the grain business.

SIR JOSEPH FLAVELLE: Mr. Wilson yesterday stated that the difficulty in their truck operation was not competition with the railways, but competition with other trucks. Do the two lines running into Edmonton from Calgary parallel one another going north?

MR. COLEMAN: Not very closely.

SIR JOSEPH FLAVELLE: It occurred to me while he was talking that perhaps one of the parallel lines could be used for motor traffic.

MR. WARREN: They have a hard surface road all the way down, their highway is completed.

SIR JOSEPH FLAVELLE: But I mean if you were going

to suffer a substantial depletion of tonnage by reason of truck competition, and you yourselves thought of going into the trucking business, one line of railway north and south would serve both cities, and the highway end would be as nearly an exclusive privilege as you could secure, and would be the railway method of meeting highway traffic competition over that particular area.

MR. WARREN: They serve entirely different areas. We have a freight service on our passenger trains now, about twelve runs where we deliver freight direct from passenger trains.

COMMISSIONER LEMAN: Twelve a day?

MR. WARREN: Yes, twelve different runs.

SIR JOSEPH FLAVELLE: One per day on each line?

MR. WARREN: Yes. We are trying it out. We know we have not lost any more freight, in fact we have gained some. Just how much that gain is due to the service we cannot tell, for it has not been in long enough. It is an experiment. Of course, this saves running a wayfreight train and cuts down expenses accordingly.

SIR JOSEPH FLAVELLE: Are you arranging for delivery forthwith at the various stations?

MR. WARREN: No, that is the difficulty of the whole thing up to now, that we have no storedoor delivery. We are station to station, and making the time exact so that everybody knows when to expect the train. We are following this up to see what the result will be.

THE CHAIRMAN: Apparently there is no regulation of highway rates in Saskatchewan.

MR. COLEMAN: No.

THE CHAIRMAN: Nor in Manitoba?

MR. WARREN: No.

THE CHAIRMAN: Nor in Alberta. Is there anything in sight?

MR. WARREN: Not yet.

MR. FAIRWEATHER: Might I say in regard to that, Mr. Chairman, that I have been following quite closely the experience of various States of the Union in attempts to regulate rates, I find that no State as yet has ever succeeded in effectivelyregulating either rates or services. The reason for that seems to be that there is such a multiplicity of operations the authorities cannot lay their finger upon the violations. One prominent trucker in Boston was asked as to whether regulation of rates and services was feasible, and he answered: You could make the law but it would take the whole United States army to try to enforce it.

THE CHAIRMAN: You do not think that that would be so in the prairie country?

MR. WARREN: We have the same thing in Manitoba. We have given to the Manitoba department that controls truck infractions probably 400 cases, and they cannot do a thing with them; they have not enough policemen to enforce the law.

THE CHAIRMAN: Infractions in what sense? Speed?

MR. WARREN: Overweights and men doing trucking under a license they did not have, and so on. The present staff of policemen cannot enforce the law. The Canadian Railroad Association has given the authorities that information.

THE CHAIRMAN: Prima facie that seems rather extraordinary. I should have thought that by a licensing system you could control the traffic. I suppose it extends over

such a wide area that it is difficult of control.

MR. WARREN: Yes.

THE CHAIRMAN: Of course, theoretically the thing is simple enough: You impose a license, take power to cancel it, and so on; but unless you can frighten the people they will become careless. It really depends on the respect the people have for the law. And bootlegging, I suppose, has become too fashionable.

MR. FAIRWEATHER: I might mention that an attempt by one of the southern States even in such a simple matter as taxation was evaded by the truckers carrying on their trucks drums of gasoline concealed under their merchandise.

SIR JOSEPH FLAVELLE: Is it illegal to move gasoline?

MR. FAIRWEATHER: The State made it illegal; but the trucker instead of buying his gasoline in the State and paying a tax of ten cents a gallon. purchased his gasoline in New York and carried it in drums concealed under his merchandise, thereby evading the tax.

THE CHAIRMAN: between Calgary and Edmonton, would there be entirely different communities of importance located on each line?

MR. WARREN: Yes, sir; we do not touch anything at all with the one exception at Red Deer, where we have a spur of seven miles.

COMMISSIONER LEMAN: That is what I thought.

(The location having been described by means of a map):

What would you say as between Saskatoon and Edmonton?

MR. WARREN: Of course, there is a certain amount of duplication on the mileage from Saskatoon down to Unity. One is the main line of the Canadian National, and the other is what I would term -- I do not know how Mr. Coleman would

describe it -- a secondary main line.

MR. COLEMAN: That is the line we have come over from Edmonton.

MR. WARREN: There is 120 miles of line where we are parallel.

COMMISSIONER LEMAN: My question bore upon the importance of the communities located upon each line.

MR. WARREN: There are communities upon both lines; no matter what is done it would be difficult to serve them all.

SIR JOSEPH FLAVELLE: They are not far enough apart to suffer any special hardship?

MR. WARREN: Generally speaking, not between Unity and Saskatoon.

COMMISSIONER LEMAN: As between Unity and Edmonton. the lines are fairly well apart. What do you say as between Brandon and Saskatoon?

MR. COLEMAN: There is a difficulty there.

MR. WARREN: Yes.

MR. COLEMAN: They are old established communities.

MR. WARREN: And you are on a different elevation.

COMMISSIONER LEMAN: Then between Maryfield and Peebles?

MR. COLEMAN: That is the Reston branch of the Canadian Pacific.

MR. WARREN : There is another line that might be considered.

MR. COLEMAN: The Canadian National Railway from Brandon to Regina.

SIR JOSEPH FLAVELLE: I am sure you would render us valuable service with your more intimate knowledge of the

subject, if you were critically to examine what could be done in the shape of amalgamation on the one line. That is one of the contributions you might make towards the consideration of the whole problem.

COMMISSIONER LEMAN: What about the two C.N.R. lines between Winnipeg and Portage la Prairie?

MR. WARREN: They constitute double tracks.

SIR JOSEPH FLAVELLE: You have a concentration of traffic there?

MR. WARREN: In a year when there is anything like a decent crop we have to handle up to about 1400 cars a day, that is grain, as well as other traffic. That is for a certain time, not all the time. We could not do with a single track.

COMMISSIONER LEMAN: Then from Winnipeg running south down to Emerson?

MR. WARREN: That is a joint section leased from the Northern Pacific and Manitoba under a 999 year lease, and is now re-leased back in certain proportions to the Northern Pacific and the Great Northern for their trains in to Winnipeg. It also enables us to get to our branches in southern, south-western and south-eastern Manitoba.

MR. COLEMAN: The Canadian Pacific is across the Red River.

SIR JOSEPH FLAVELLE: You would consider the Northern Pacific, your own service, and the Canadian Pacific on a single line would be too heavy a charge?

MR. WARREN: You are across the Red River, in a different community altogether.

SIR JOSEPH FLAVELLE: I know; but are there settlements on both sides of the river?

MR. WARREN: Yes, that is the Red River Valley, one of our best districts.

COMMISSIONER LOREE: Do you keep your divisional accounts so you know the earnings and expenses?

MR. FAIRWEATHER: Not the earnings, Mr. Loree, but the expenses. The earnings are handled through a central accounting office, and we do on occasion distribute those earnings, but only for the purpose of special studies. The expenses, however, are available by divisions and subdivisions.

MR. WARREN: We generally take the gross ton mile and the net ton mile and add one against the other. Last year we estimated the passenger train mileage. Of course, it is not correct but it gives you some sort of a picture.

MR. FAIRWEATHER: Anything else would be arbitrary anyway.

COMMISSIONER LOREE: What local business is there on the line between Fort William and Superior Junction?

MR. WARREN: Nothing of any consequence except pulpwood and some lumber. The local business is such that we run just two trains per week on the line.

COMMISSIONER LOREE: That is one of the lines that possibly could be abandoned and a shorter connection put in, using the Canadian Pacific as a joint line.

MR. WARREN: You mean to join up with the Canadian Pacific down about Raith?

COMMISSIONER LOREE: Somewhere in that neighborhood.

MR. WARREN: That is possible. Of course, the only objection to that offhand, Mr. Loree, is the fact that in order to get into our sorting yard at Neebing we would have to come off the Canadian Pacific again and build another

connection to get over there. Of course, in the terminal arrangement we might work out something that Mr. Coleman and I had in mind a long time ago at Fort William.

COMMISSIONER LOREE: It struck me you might use both tracks up from Ellis to James. They are pretty close together, apparently, for thirty or forty miles.

MR. WARREN: We go over the C.P.R. at the Kaministiquia River crossing, and we have a double track in there to the river yard. We have already taken up the old G.T.P. line on the north side of the river, but we will certainly look at that again, Mr. Loree.

COMMISSIONER LEMAN: Is the C.P.R. line double tracked from Winnipeg to Port Arthur?

MR. COLEMAN: Yes.

SIR JOSEPH FLAVELLE: You are both double tracked, are you?

MR. WARREN: No sir, we are single tracked. Of course we have two lines.

SIR JOSEPH FLAVELLE: Yes, but I thought your original Mackenzie & Mann line was double tracked.

MR. WARREN: No, except for a few odd miles here and there.

COMMISSIONER LEMAN: In a normal year is your double track way fairly busy?

MR. COLEMAN: We have never reached the capacity of it.

SIR JOSEPH FLAVELLE:You completed it only this year?

MR. COLEMAN: No, there was one section of it which we built five or six years ago. We double tracked the short line from Emerson to Winnipeg, a distance of 32 miles. The balance was completed in 1908.

COMMISSIONER LEMAN: What would be the difference in mileage between the two railways from Winnipeg to Fort William?

MR. WARREN: The C.P.R. is shorter by about ten miles.

COMMISSIONER LEMAN: Does the C.N.R. tap any business originating on the Lake of the Woods?

MR. WARREN: Of course we go into the paper and lumber mills of the Shevlin-Clark and Backus companies and our line goes into Duluth from there through Virginia.

COMMISSIONER LEMAN: I do not see the connection with Duluth.

MR. WARREN: From Fort Frances south. The only district we get of the Rainy River is the end of it. We are north there.

THE CHAIRMAN: We are very much obliged to you, gentlemen.

(Mr. Mallory joined Mr. Fairweather and the other railway officials retired.)

THE CHAIRMAN: Mr. Fairweather, I think you told Mr. Moxon you had something you were ready to go over.

MR. FAIRWEATHER: Yes, sir.

THE CHAIRMAN: I think you were going to give us some of the heads of that anticipated improvement to which Sir Henry Thornton referred -- $30,000,000, I think it was.

MR. FAIRWEATHER: I have here a statement setting forth the extraordinary economics which the Canadian National have instituted.

THE CHAIRMAN: May I ask what you mean by extraordinary? Do you mean striking or out of the ordinary course?

MR. FAIRWEATHER: I was going to define it, sir, as a measure towards meeting the present depression. These

extraordinary economics represent an attempt to curtail the expenses below the level which they would reach under ordinary management. Naturally, as traffic falls, if you have a well managed enterprise, the labour bill will go down, and also the material bill. These items which I have now before me are largely made up of things attempted beyond that -- reductions in rates of pay, a shortening of the working time under agreements with the employees, and things of that nature, as well as a drastic curtailment of passenger train service.

COMMISSIONER LOREE: Does the company get any return from the short day?

MR. FAIRWEATHER: That is a very interesting thing, Mr. Loree. We do not yet know the limit to which this tendency will go, but so far we have not been able to determine any marked diminution in the gross output per man-week, notwithstanding the fact that there is about a seven per cent reduction in the working time. It seems an extraordinary statement to make, and I suppose one inference would be that the supervision in other times was perhaps not one hundred per cent, or what is more likely to be the case, that in the present depression those who have jobs are very keen. However that may be, the extraordinary thing is that working in our shops with reduced time our unit costs have actually gone down slightly.

COMMISSIONER LOREE: Normally, whether you employ one man for four days or two men for two days each, you get the same result.

MR. FAIRWEATHER: Quite; but that has not worked out so far. We do not know how far that tendency will be manifested, and therefore these figures totalling $24,000,000 of

economies must in some degree be discounted.

COMMISSIONER LEMAN: These are estimated figures?

MR. FAIRWEATHER: I have them here in great detail. The first was a very drastic rearrangement made about July, then another about August, and another in November. They total $23,700,000 per year.

SIR JOSEPH FLAVELLE: You mean that those are extraordinary changes after you have already introduced normal economies?

MR. FAIRWEATHER: Yes, sir.

SIR JOSEPH FLAVELLE: These are extraordinary changes?

MR. FAIRWEATHER: Yes, sir, extraordinary attempts to meet the depression. I would suggest, if it meets with your approval, that a copy of this statement be filed with the Commission. Or would you prefer that I go over it in detail now?

THE CHAIRMAN: I think it would really be more convenient if we each had a chance to look over it before you go into it.

SIR JOSEPH FLAVELLE: I think so.

THE CHAIRMAN: It is not very satisfactory to follow an oral statement of detailed statistics without having first had an opportunity of examining the figures. We could have copies of the statement within an hour or so, I suppose?

MR. FAIRWEATHER: I think so. It is simply a matter of typewriting and checking, although I have a very limited stenographic staff with me.

THE CHAIRMAN: If you can do that within an hour or so, we will take it up at 6.15 this evening, after we arrive in Regina.

At 3.20 p.m. the Commission adjourned.

(Page 335 follows)

The Commission resumed at the Saskatchewan Hotel, Regina, at 6.15 p.m.

THE CHAIRMAN: We now have your memorandum, Mr. Fairweather, showing the economies effected. The figures would rather indicate that this is a 1931 matter, but as I understand it, it is virtually for 1932 -- it is really a projected programme?

MR. FAIRWEATHER: Not entirely, sir. The various economies mentioned were put into effect at the dates indicated on the summary. That is one thing to which I wish to draw your attention.

THE CHAIRMAN: Well, these are all involved in this statement indicating cash requirements -- $114,000,000, is it?

MR. FAIRWEATHER: To a certain extent, sir. The full amount would not be, but a certain portion would be.

THE CHAIRMAN: These figures are estimated for a year, beginning on the date mentioned?

MR. FAIRWEATHER: These figures are the estimated economies for a year, beginning on the date mentioned.

LORD ASHFIELD: Is the $114,000,000 affected by this statement at all?

MR. FAIRWEATHER: No sir.

LORD ASHFIELD: You made full allowance for it?

MR. FAIRWEATHER: Yes sir.

LORD ASHFIELD: As I understand it, you expect economies of $23,000,000 for 1932, and before arriving at the savings in 1932 you must reduce the $23,000,000 to correspond to the dates when the economies in 1931 came into force? That is the position, is it?

MR. FAIRWEATHER: If you are making a comparison with 1931, yes sir.

LORD ASHFIELD: So that you have to take into consideration the possible traffic for 1931, down and up, and the expenditure for 1931 down covering a full year in respect of these different economies?

MR. FAIRWEATHER: Quite so, sir.

SIR JOSEPH FLAVELLE: The 7/21/31 figure would be five-twelfths of that, would it not, and on your $2,222,000, four-twelfths would apply?

MR. FAIRWEATHER: Approximately, yes sir.

SIR JOSEPH FLAVELLE: And on the next item of eight millions, one-twelfth would apply -- or it would be more correct to say one-sixth; is that right?

MR. FAIRWEATHER: Approximately, sir.

SIR JOSEPH FLAVELLE: That is to say, for this year, 1931?

MR. FAIRWEATHER: Approximately.

SIR JOSEPH FLAVELLE: And to that extent they are involved in this statement?

MR. FAIRWEATHER: Yes sir.

LORD ASHFIELD: They are inside the statement?

MR. FAIRWEATHER: Yes sir.

LORD ASHFIELD: May I ask how the information in this statement was compiled, by which you arrive at the $23,000,000 odd?

MR. FAIRWEATHER: That was compiled by taking into conference the various departmental heads and instructing them with regard to policy and having them then submit proposals. Those proposals were reviewed

by the executive and then the necessary action was taken and the departments concerned were advised.

LORD ASHFIELD: I am sorry your answer is not quite clear to me. When you refer to the executive you mean the President and the executive officers of the company?

MR. FAIRWEATHER: Yes sir.

LORD ASHFIELD: In reviewing the expenditure for the whole undertaking, what was the policy laid down in respect of this economy of $23,000,000?

MR. FAIRWEATHER: The problem before the senior executive was to pare the expenses down to an absolutely barebones basis, as near as that could be done.

LORD ASHFIELD: Was anything definite given in the way of instruction? Was there any written instruction?

MR. FAIRWEATHER: Oh yes.

LORD ASHFIELD: Could we see that?

MR. FAIRWEATHER: I have not those with me; but for instance, I received instructions as a departmental officer as to just what I was to do.

LORD ASHFIELD: Were those instructions oral or written?

MR. FAIRWEATHER: They were written.

THE CHAIRMAN: We could have those, I have no doubt?

MR. FAIRWEATHER: I could obtain them; I do not have them with me.

THE CHAIRMAN: The value of this statement would depend to some extent on what those instructions were, if we could get them.

MR. FAIRWEATHER: I could tell you now verbally what they were.

LORD ASHFIELD: That would be very interesting.

MR. FAIRWEATHER: The instructions in the last most drastic cut --

THE CHAIRMAN: That is, in the November cut?

MR. FAIRWEATHER: Yes.

LORD ASHFIELD: Did you have several cuts prior to that?

MR. FAIRWEATHER: Oh yes, but those prior cuts did not reach to such a drastic extent as the November cut.

LORD ASHFIELD: Do I gather from your answer that it means this: that as the situation developed, showing a condition growing gradually worse, the screw was tightened more and more?

MR. FAIRWEATHER: That is exactly it, your lordship.

LORD ASHFIELD: Is this the final word? Have you given it the final turn? Is it squeaking or squealing?

MR. FAIRWEATHER: There is quite a little squeaking in the mechanism.

LORD ASHFIELD: Squealing is the better word.

MR. FAIRWEATHER: Squealing would be, yes. But the instructions I received were to review the operations of my particular department and to put up a proposal to the executive based upon three assumptions: first, what staff reductions I could make, which, while they might hamper to some extent the efficiency of my department, would still not interfere seriously with its operation; second, what staff reductions I could make if my department was temporarily to be laid upon the shelf but to be continued as a

nucleus.

LORD ASHFIELD: This of course cannot be taken as a standard for all departments.

MR. FAIRWEATHER: No, not for all departments, but the form was the same for all. And the third assumption was as to what economies could be effected if the department was completely abolished.

THE CHAIRMAN: That is, these were alternative hypothesis?

MR. FAIRWEATHER: They were alternatives, sir; and the executive took those reports and finally arrived at the statement of economies indicated here in Exhibit "C". To complete the picture, Mr. Chairman, I might say that subsequent to this statement of economies the decision of the conciliation board regarding our running trades was handed down, which by a majority award declared for a ten per cent decrease in the rates of pay. That would result in approximately two million dollars additional to the amount shown here.

THE CHAIRMAN: This was done before that?

MR. FAIRWEATHER: This, sir, was done before that, and it would not have been proper to include that amount; but since the award is out and the railway company is now acting upon it, there is a further amount of $2,000,000 based upon the 1931 volume of traffic.

LORD ASHFIELD: Practically for the next year?

MR. FAIRWEATHER: Yes sir.

THE CHAIRMAN: That would make it $25,700,000?

MR. FAIRWEATHER: Yes sir.

LORD ASHFIELD: Is your traffic still falling this year as compared with last year?

MR. FAIRWEATHER: Unfortunately it is, and it is a matter which gives me very much concern. I am not alone in that, I know, but particularly it falls upon Mr. Mallory's shoulders and mine to watch these things; and in all my experience I have never seen such a long continued decline as that which we have experienced since 1929. We are still showing declines of from twelve to fifteen per cent each reporting period.

THE CHAIRMAN: What are those periods?

MR. FAIRWEATHER: They would be weekly for three months and then a closing period for the end of the month.

THE CHAIRMAN: Twelve to fifteen per cent -- I do not quite follow what you mean. What is the percentage on?

MR. FAIRWEATHER: Percentage as compared with the previous year. For instance, the first week in November would show a decline of 12 per cent as compared with the first week in November last year.

LORD ASHFIELD: Assuming 12 per cent decrease in a year, what would the amount of money be?

MR. FAIRWEATHER: On our present volume of revenue?

LORD ASHFIELD: I am taking it for 1932.

MR. FAIRWEATHER: It would be 12 per cent of $180,000,000 -- $21,600,000.

LORD ASHFIELD: That would be a decrease of $21,600,000 in your gross takings for 1922 as compared with 1931 on the basis of a 12 per cent decrease.

MR. FAIRWEATHER: If that continues, sir. I may say in that regard I keep what is to me a very interesting and I think informative chart that shows the trend of the

decreases, and if it is anything cheerful, that has in the last month flattened out.

THE CHAIRMAN: Did you mean that the rate of decrease was an accelerating rate as the year advanced?

MR. FAIRWEATHER: Well, if you would go back to the beginning of the depression, Mr. Chairman --

THE CHAIRMAN: I mean as compared with last year.

MR. FAIRWEATHER: As compared with last year our decreases were heaviest in the summer months, and as we approached the fall they started to get smaller. I believe we did stand some decreases of as much as 30 per cent as compared with the previous year.

LORD ASHFIELD: The tourist traffic would have something to do with it, I suppose.

MR. FAIRWEATHER: Most of that was in freight, sir. The very disturbed condition of international affairs I think had a more profound bearing upon our gross than any other single factor. You see, we are the fifth trading nation in the world, and with a population of ten millions that means that our activity per capita is normally very high and we feel disturbed international conditions much more than another country would.

THE CHAIRMAN: When you speak of a 12 per cent decrease, taking last year as the datum, you mean that would be an average throughout the year?

MR. FAIRWEATHER: No sir. I believe the decrease this year as compared with last on the average is much more than that.

LORD ASHFIELD: More than 12 per cent?

MR. FAIRWEATHER: Oh, much more.

LORD ASHFIELD: What is the decrease to date?

MR. FAIRWEATHER: Mr. Mallory worked up a memorandum on that, and we have it here. The decrease to date of 1931 as compared with 1929 on our rail lines was eighty-five million, which represented a 34 per cent decrease. That is estimated for the whole year.

THE CHAIRMAN: Is that the actual estimated diminution for the year -- is that what you mean?

MR. FAIRWEATHER: The figures I have here are compared with 1929. The actual decrease in our rail line revenue, according to this statement --

MR. MALLORY: The gross for 1930 for rail line was $206,000,000; in 1930 it was $164,000,000.

THE CHAIRMAN: That is estimated?

MR. MALLORY: These are actual figures, with the exception of the months of December and November. We have ten months actual figures in our 1931 calculation.

THE CHAIRMAN: What is the total for the twelve months in 1930?

MR. MALLORY: $206,350,000.

THE CHAIRMAN: And for ten months in 1931 it is $164,000,000?

MR. MALLORY: No sir, ten months actual, plus an estimated figure for November and December.

THE CHAIRMAN: That gives what?

MR. MALLORY: $164,000,000.

LORD ASHFIELD: Are you approaching that estimate?

MR. MALLORY: Very closely, yes sir.

LORD ASHFIELD: What percentage is that?

MR. MALLORY: It is about 20 or 21 per cent.

LORD ASHFIELD: It is a 21 per cent decrease for 1931 compared with 1930?

MR. McLAREN: The actual figures to the end of October, 1931, are $148,000,000 odd compared with $189,000,000 odd, equivalent to a decrease of 21 per cent, equal to $40,000,000.

LORD ASHFIELD: It has not altered very much on a percentage basis?

MR. McLAREN: No.

LORD ASHFIELD: Has any attempt been made to forecast the revenue for next year? I think you are preparing something, as a matter of fact.

MR. McLAREN: We have -- in many ways it is more a mathematical problem than anything else.

COMMISSIONER LEMAN: These are only the rail figures; they do not include hotels or anything else?

MR. MALLORY: No sir; just the rail line operation. Express and telegraphs are not included in that figure.

LORD ASHFIELD: Are hotels included?

MR. MALLORY: No, not the express, telegraphs or hotels.

SIR JOSEPH FLAVELLE: Are the steamships included?

MR. FAIRWEATHER: No, Sir Joseph; that would draw down to our net income figure, but we have in the past dealt with them on a separate basis, the reason being that for purposes of estimate and for control it is much more convenient to do that.

SIR JOSEPH FLAVELLE: These do not include the

eastern lines?

MR. FAIRWEATHER: No sir, they do not.

LORD ASHFIELD: Who is responsible for economies on eastern lines?

MR. FAIRWEATHER: The same management as is responsible for economies on the rest of the system.

LORD ASHFIELD: Would there be a proportionate decrease in expenses there?

MR. FAIRWEATHER: I should say yes. Any economies which we have put into effect have been put into effect on the eastern lines on the same basis as they have been on the rest of the system.

THE CHAIRMAN: These figures with regard to economies exclude the eastern lines also, do they?

MR. FAIRWEATHER: The $23,700,000 -- not entirely. I think it would be more correct to say that was a system figure.

THE CHAIRMAN: Does it include the hotels?

MR. FAIRWEATHER: Yes, it does include the hotels, sir. The $23,700,000 is as near as possible a system figure, excepting the Canadian Government Merchant Marine and the West Indies service.

THE CHAIRMAN: But it includes such steamers as you are operating and consider part of the railway operation?

MR. FAIRWEATHER: Yes sir.

THE CHAIRMAN: As compared with the beginning of the year, has the diminution, broadly speaking, been an accelerating diminution?

MR. FAIRWEATHER: As I explained, Mr. Chairman, we started off the year with prospects perhaps looking a

little better, and then as the year progressed per cent decreases got worse until we reached the fall months, and then in the late fall they started to get rather smaller.

THE CHAIRMAN: What month would that be?

MR. FAIRWEATHER: I have here a statement for the system; it includes the Central Vermont but it excludes the eastern lines. These are typical per cent decreases by months: in January, 21 per cent; February, 21; March, 19; April, 16; May, 17; June, 21; July, 22; August, 24; September, 27; October, 23, and then November, 11, according to the budget -- 11 or 12.

THE CHAIRMAN: Does that include the whole month of November?

MR. FAIRWEATHER: This was a budget figure -- an estimated figure.

THE CHAIRMAN: Now, your figure for October was two per cent higher than the figure for January?

MR. FAIRWEATHER: Yes, October was 23 and January was 21.

THE CHAIRMAN: What is the explanation of the sharp drop in November, or rise, if you like to call it?

MR. FAIRWEATHER: Oh, the improvement in November?

THE CHAIRMAN: Yes.

MR. FAIRWEATHER: That was due largely to acceleration in the grain movement.

SIR JOSEPH FLAVELLE: A higher price for wheat and increase in shipments.

COMMISSIONER LOREE: M In the States the peak of earnings is the 10th of October and the valley is the 4th of February. Does that correspond to the Canadian figure?

MR. FAIRWEATHER: Our peak would perhaps be put forward a little. Our minimum corresponds almost exactly.

THE CHAIRMAN: What is your February percentage?

MR. FAIRWEATHER: February is a 21 per cent decrease as compared with February of the previous year.

THE CHAIRMAN: And in October, 23?

MR. FAIRWEATHER: 23.3.

THE CHAIRMAN: Do you say that your peak would normally be in November?

MR. FAIRWEATHER: Our peak in earnings -- normally October is our heavy month. After that, November shows somewhat of a decline, December a bigger decline and then January, and February is the minimum month. Each period is compared with the corresponding period in the preceding year, and the cycle of earnings month by month forms a very typical picture. As Mr. Loree has said, it starts with a minimum in February and then increases to a sort of plateau, and then when the crop moves in the fall it goes up to a mountain peak; then it sharply drops away from that down to the minimum, and that is a typical year's traffic. The thing that hit us, of course, in 1929, was a crop failure; that took away a good part of our peak, and that was really the only effect of the depression on our 1929 earnings. Our 1930 earnings when they came along -- our fall peak did not rise to its accustomed height on account of the depression, and in 1931 I rather think that the fall peak has assumed a little more nearly its correct proportion to the rest of the year.

COMMISSIONER LEMAN: That would be one of the reasons for the improvement in your percentage for October -- you were comparing with a year of depressed traffic?

MR. FAIRWEATHER: Yes, sir.

COMMISSIONER WEBSTER: Do these figures correspond pretty much with those of the Canadian Pacific?

MR. FAIRWEATHER: Yes and no. Generally speaking the Canadian Pacific figures follow ours, but for some reason I have never been able completely to explain, their figures tend to be a little more erratic. I do not know the reason for it, but they do not follow as smooth a trend as ours.

SIR JOSEPH FLAVELLE: Are they showing about the same decrease as you?

MR. FAIRWEATHER: Well, they showed a very heavy decrease in their last weekly figure; I think it was almost 30 per cent, was it not, Mr. Mallory?

MR. MALLORY: I have not seen the last figures.

MR. FAIRWEATHER: The one prior to that they had reduced their decrease down to quite a small one, I think only a matter of around 5 per cent. But their decreases generally speaking are a little more erratic than ours. I would not desire or try to explain it.

LORD ASHFIELD: What was your ratio of expense to gross receipts last year?

MR. FAIRWEATHER: Do you wish the all-inclusive system, on our system as reported?

LORD ASHFIELD: On the basis you are working on now.

MR. FAIRWEATHER: That would be the system as re-

ported, and the operating ratio was 88.05.

LORD ASHFIELD: What is it this year to date; have you got that?

MR. FAIRWEATHER: I should say it is close to 96.

MR. McLAREN: 96.36.

LORD ASHFIELD: Have you got it for 1929, and for 1928, which was your best year, was it not?

MR. FAIRWEATHER: In 1929 it was 82.5. In 1928 our operating ratio on the comparable basis was 79.05, and we anticipate the full year 1931 will be about 95.5.

COMMISSIONER LEMAN: Would you have the figure for the whole system?

MR. FAIRWEATHER: Yes, I have the figure for the whole system, except 1931. The all-inclusive system had an operating ratio in 1928 of 82.06. In 1929 it was 85.38 and in 1930 it was 91.17.

LORD ASHFIELD: So that for this year it will be over 100 per cent.

MR. FAIRWEATHER: Including the eastern lines?

LORD ASHFIELD: Yes.

MR. FAIRWEATHER: Well, I would have to ask Mr. Mallory about that; I rather think it will.

LORD ASHFIELD: You will have an actual deficit on operating, including eastern lines?

MR. FAIRWEATHER: Yes.

THE CHAIRMAN: Is that on the basis of the 20 per cent freight rate reduction?

MR. FAIRWEATHER: That is on the basis of crediting to the revenues on the eastern lines the 20 per cent freight rate.

LORD ASHFIELD: Could we come back to this question of the instructions given on the question of economics? We have dealt only with your department; could you deal now with all the departments?

MR. FAIRWEATHER: I know in that particular case identical instructions went out from the President's office.

LORD ASHFIELD: They could not be quite the same, because it would wipe out every department and every train would stop. It is an impossible contemplation. There must have been some instruction; I was wondering what form it took. Was it a request to each responsible officer to exercise his own judgment in determining what was the point at which you had reached the bone, or was it on the basis of percentage reduction?

MR. FAIRWEATHER: No sir --

LORD ASHFIELD: Was it the function of the officer to determine how much he must spend in the year?

MR. FAIRWEATHER: May I explain, sir? There was in the first instance a conference in the President's office. At that conference the seriousness of the situation was explained and general instructions given to see what economies could be made, carrying the thing to the utmost. To facilitate the preparation of those estimates, these hypotheses were submitted; because, sir, each of the main departments would have sub-departments which might be dispensed with. I will instance again my own department: my own department could be done away with tomorrow without actually affecting the running of the trains, and it is purely a matter of policy as to whether it is continued or not. And there would be many other

sub-departments that could be cut off; for instance, our colonization department, our immigration department, our radio department, things like that, where the executive decision would have to be made as to whether they were to be continued at all or not, and for the purpose of guiding the executive one of the things was just that.

THE CHAIRMAN: Then you had three alternatives: first, reduction without seriously interfering with operation?

MR. FAIRWEATHER: Yes.

THE CHAIRMAN: Second, reduction to the point of maintaining only a skeleton staff?

MR. FAIRWEATHER: Yes sir.

THE CHAIRMAN: Third, suppression of the service entirely?

MR. FAIRWEATHER: Where it could be done, yes sir.

THE CHAIRMAN: Assuming that, of course.

LORD ASHFIELD: What does the colonization department cost you a year? Have you got the figures?

MR. FAIRWEATHER: Yes, we have it here in our annual report. Our colonization, agriculture and natural resources cost us in the year ending December 31, 1930, $526,000.

COMMISSIONER LEMAN: What does it cover -- just in broad terms?

MR. FAIRWEATHER: That group of departments covers the contact which the railway company maintains with prospective immigrants and the placing of men upon the land, as well as the development of any natural resources which may be tributary to the Canadian National Railways; that is, if anybody desires to know something with regard to the

mineral developments along the Canadian National, or the lumbering developments, this department would furnish them with that information and generally keep the public advised with regard to matters of that kind. I may say that our colonization and agriculture department has in this period of depression turned its attention from immigration to the placing of men and women upon the land.

LORD ASHFIELD: Where do they come from?

MR. FAIRWEATHER: From the cities -- men who have drifted into the cities and who have in this depression been thrown out of work, but who fortunately have a little capital, and if they have just enough capital to make the down payment upon a farm and to ensure a reasonable degree of security, our agricultural department will make every effort to place them intelligently upon the land. We have in that respect done a very great work; I think altogether about twenty thousand families have been assisted in this manner.

COMMISSIONER WEBSTER: In what period?

MR. FAIRWEATHER: That is since the depression started to be severe; at the beginning of 1930.

COMMISSIONER WEBSTER: Did you reduce the staff of your department to any substantial extent when immigration completely stopped.

MR. FAIRWEATHER: Oh, we certainly made severe cuts in it -- just how much I could not say at this time.

COMMISSIONER WEBSTER: Does that figure include the expenses of the European offices, say the Paris office?

MR. FAIRWEATHER: If it were directed at this activity, yes.

COMMISSIONER WEBSTER: Only so far, but not the

whole cost of the Paris office?

MR. FAIRWEATHER: Mr. McLaren has just indicated to me that this department has decreased its expenses 30 per cent.

LORD ASHFIELD: This is a question you cannot possibly answer now, Mr. Fairweather. Suppose the Commission were to say to you -- and when I say "you" I am speaking of the Canadian National -- "We are not satisfied with the economies which are contemplated, and we wish you to give us a report showing what steps the officials of the Canadian National would have to take to meet the situation if economies were made on a certain specified scale." Suppose we were to say: You have now given us a list of economies amounting to some $23,000,000; we will increase the amount by say $10,000,000 -- arriving at a certain figure which we say the Canadian National Railway should reach. Assuming for the moment that the Canadian National Railways have to be operated on a certain basis of expenses in relation to earnings, what we should like you to tell us would be this: on that assumption what protection would the Canadian National Railways ask in so far as any steps the Canadian Pacific might take in the matter were concerned. Assuming that some instruction might be given to the Canadian National Railways, what steps would you ask should be taken so far as the Canadian Pacific Railway is concerned? That, as I have said, is a question you cannot answer now. But if the Chairman agrees and my colleagues agree, we would ask you to consult with your officers and let us have your considered views on that. You see what I mean; it has some relation to what has been said on another matter, because the Senate threw out your

programme of extension and the Canadian Pacific stepped in and secured some advantage by making extensions because of the policy of the Senate with respect to your programme. Here you have two competing systems, with a Government responsible for whatever the results of the operating of the Canadian National may be. Suppose the Government said to you: You have got to operate this service on a certain basis, whatever that might be, and that scale might be submitted so that we should have a knowledge of what steps would have to be taken in the various stages, finally reaching the very lowest figure that would be possible in the circumstances. On that assumption the Canadian Pacific might come into the situation, and I would ask if you would consult with your colleagues and advise us what protection you think should be necessary. Have I made it clear?

THE CHAIRMAN: You understand, do you, Mr. Fairweather? I mean, could you in the way in which it has been put to you, without something more definite being given in the way of figures --

MR. FAIRWEATHER: Well, I confess it is an extremely difficult problem, but I think I have what is in his lordship's mind. I surmise that it would be divided into two categories: first, as regards the operations of the property as it now exists, and the attention there would be directed to the minimizing of service and to the reduction of cost of operation. The other category would be the matter of capital expenditures, which of course is in a different field entirely. I take it his lordship would desire an answer on both of these points.

LORD ASHFIELD: You might for instance say that recon-

ing a certain figure of economy it could be done only by cooperation with the Canadian Pacific Railway.

MR. McLAREN: Your lordship, is this what is intended: that if the Commission were to say to the officers and management of the National Railways, "We want you to operate your property at a further reduction of the twenty-three millions to say forty millions," what would be our disadvantage as compared with the Canadian Pacific if they were not likewise ordered to make certain reductions?

LORD ASHFIELD: It might be impossible for you to do it except by cooperation. It might be that certain things would be necessary in cooperation with the Canadian Pacific in order to effect that position, or it might be your position would be prejudiced unless some arrangement were made with the Canadian Pacific. Do you see what I mean?

MR. McLAREN: Yes, the amount I think is the factor.

LORD ASHFIELD: You may be quite sure the amount will be large enough to make it necessary for you to consider it very carefully; because if the Canadian Government is confronted with a situation where not even the working expenses of the Canadian National are being earned, and where there is the possibility -- shall we say the probability?-- of the economies you have in contemplation being absorbed by a decrease in your earnings, obviously the position is an extremely grave one. We should then desire to investigate the situation and to see what steps could be taken at once to effect some substantial improvement in the financial position of the Canadian National Railways, and we might find it necessary to make some recommendation immediately to the Government on that point. If

we were dealing only with the Canadian National Railway, that would be a simple matter; it would be merely a question of determining to what extent economies were possible. But as I see the situation it is very likely that you would say: "Yes, these things can be done, provided certain steps are taken so far as the Canadian Pacific Railway is concerned. That is what we should like to have -- two things: what the effect on the Canadian National would be if these economies were made and, secondly, to what extent the Canadian Pacific must come into the situation. To put it in another way, and to put it quite frankly to you: in order to arrive at a certain financial position with a view to avoiding absolute bankruptcy, the Canadian Pacific and the Canadian National may find it necessary to get together and say, willy-nilly we have to do these things, and to do them quickly; very drastic steps must be taken. We should like to get that information from you, based on certain amounts that we should give you on a scale for the purpose.

SIR JOSEPH FLAVELLE: On the basis of your anticipated lessened earnings of $38,000,000 in 1931 as compared with 1930, after you have given effect to five-twelfths of this eleven millions your total economics of $23,000,000 are reduced by $5,000,000, leaving $18,000,000, so that when you take into consideration your lessened anticipated earnings of $38,000,000 you are in a worse position to the extent of $20,000,000, so that your economies are eaten up by the reduced gross earnings.

MR. FAIRWEATHER: That has been our experience,

Sir Joseph.

SIR JOSEPH FLAVELLE: If the economies that you effect are less than the reduction in your gross earnings, you are in a worse position the following year.

MR. FAIRWEATHER: Yes sir, that is a necessary consequence. But there comes a point beyond which you cannot reduce further the expenses of a railway and continue to have a railway. The Canadian National Railway at the present time is sailing under bare poles. I venture to say that additional traffic would be carried on the Canadian National Railways at an expense ratio certainly not exceeding fifty per cent; I would rather be inclined to think it would be nearer forty.

THE CHAIRMAN: I do not quite understand that.

MR. FAIRWEATHER: What I mean by that is this, Mr. Chairman; our operating ration at the present time is 96, and as his lordship has indicated, it steadily went up as our traffic went down. There is a very necessary cause behind that -- and I went into that at some length on the occasion of one of our previous conferences. If we got an additional dollar of revenue to-day we would put fifty cents of that into the net. Is that clear, sir?

THE CHAIRMAN: I think I understand what you mean.

MR. FAIRWEATHER: Out of each dollar of average revenue now we succeed in putting only four cents into the net, but if we got a dollar additional revenue we would put fifty cents of that into the net.

THE CHAIRMAN: With respect to that dollar, the operating ratio is fifty per cent?

MR. FAIRWEATHER: That is correct, sir.

LORD ASHFIELD: Of course the overhead is not altered by the increased traffic; it is more or less constant, and therefore you can pile up average earnings and the actual cost of moving that further amount of traffic is proportionately much less than the ratio of expense and receipts as it is to-day.

MR. FAIRWEATHER: And further, this period of depression has had the effect of reducing our overhead to a very low basis.

SIR JOSEPH FLAVELLE: The gravity of your situation increases if your reduced gross earnings are larger than your reduced expenditure.

MR. FAIRWEATHER: Well sir, that is almost a necessary consequence. In the operation of a railway you cannot as a general proposition, without accruing deferred maintenance, decrease your expenses as much as you decrease your revenue -- that is impossible. If you find a railway doing that to any considerable extent, Sir Joseph, it only means that they are not maintaining their property.

THE CHAIRMAN: Or that they have been grossly exorbitant in their expenditure.

MR. FAIRWEATHER: Yes.

LORD ASHFIELD: For the information of the Secretary -- I do not know whether it has been asked for yet or not -- I think the Commission would like a statement showing the salaries of the administrative staff and wages to the employees in the different categories and in such a form that we could have side by side those paid by the Canadian National and those paid by the Canadian Pacific; and

some idea of the number employed in each of those different categories.

COMMISSIONER LEMAN: In other words you cannot conceive that with the present volume of traffic you could bring down your operating ratio to say 80 or 81 per cent?

MR. FAIRWEATHER: If we could succeed in doing that, Mr. Leman, we would be supermen.

LORD ASHFIELD: Not necessarily.

MR. FAIRWEATHER: Granting, sir, that we do not disturb the wage level -- if the wage level is not disturbed, it is impossible. Of course if you break through the wage level, that ratio might be reached.

LORD ASHFIELD: When you have to cut your coat according to your cloth you can do a great deal. If there is nobody to give you money that you do not earn, you have to keep within what you can earn -- it is unavoidable.

MR. FAIRWEATHER: Or die.

LORD ASHFIELD: Well, you won't die in this country, from all that I have seen of it. In England it is quite another story; if you do not balance your budget you can die of absolute starvation.

THE CHAIRMAN: What was the question actually submitted to the board of arbitration? Was it a 10 per cent reduction, or was the ratio of reduction left to the board?

MR. FAIRWEATHER: No sir, it was a straight application for a 10 per cent reduction in the basic day.

SIR JOSEPH FLAVELLE: The board had no power to make a compromise, say to the extent of 5 per cent.

THE CHAIRMAN: Or to increase the 10.

SIR JOSEPH FLAVELLE: It was 10 per cent or nothing.

COMMISSIONER LEMAN: Only on the basic day?

MR. FAIRWEATHER: Only on the basic day. Of course, Mr. Leman, that carries with it an interpretation of the wage agreements, and they are very complicated affairs indeed. But the arbitration was on the basic day.

COMMISSIONER LEMAN: But that would affect the extra hours, I suppose?

MR. FAIRWEATHER: In so far as it would effect overtime, yes, and in so far as in some cases it would affect arbitraries where those arbitraries were paid on an hourly basis. Generally speaking that 10 per cent reduction would mean a 10 per cent reduction in the pay envelopes of the men.

LORD ASHFIELD: Have you the total amount of money paid out each year for running the hotels?

MR. FAIRWEATHER: It is in the statistics already supplied to you, sir.

THE CHAIRMAN: I do not know that we have it for 1931.

MR. FAIRWEATHER: The figures for 1931 were furnished up to the end of October -- the income account was furnished to you.

MR. McLAREN: I can give you the figures now as far as the ten months are concerned. Hotel revenues in 1931 amounted to $2,221,000 odd as against $2,594,000 odd last year, excluding eastern lines. Working expenses for the ten months, 1931, amounted to $2,180,000 as against $2,417,000 odd.

COMMISSIONER WEBSTER: You have closed up a great many offices in the United States, have you not, Mr.

Fairweather?

MR. FAIRWEATHER: The Canadian National?

COMMISSIONER WEBSTER: Yes.

MR. FAIRWEATHER: You mean on our United States railways?

COMMISSIONER WEBSTER: Well, offices anywhere that do business.

MR. FAIRWEATHER: Outside ticket offices?

COMMISSIONER WEBSTER: Yes.

MR. FAIRWEATHER: Offhand, sir, I could not say how many we have closed, but I know we have been pursuing a policy of large economy and I have no doubt that branch of the service did not escape.

COMMISSIONER WEBSTER: Have you there the cost of the New York office?

MR. FAIRWEATHER: I have that with me on the train, but I do not believe I have it here, sir.

COMMISSIONER WEBSTER: I wonder if I could get that before we part?

MR. FAIRWEATHER: Yes sir.

COMMISSIONER WEBSTER: Giving the number of men employed, the number of ticket sellers in that office, and some idea of the value of the office to the system, if you can estimate it in dollars and cents.

MR. FAIRWEATHER: Yes sir.

COMMISSIONER WEBSTER: I have a particular reason for wishing to know that.

MR. FAIRWEATHER: I prepared a statement of that nature for the use of the committee of the House of Commons, and I could simply turn that over to you.

COMMISSIONER WEBSTER: You are still paying rent for

the old office there, are you not?

MR. FAIRWEATHER: Yes sir.

COMMISSIONER WEBSTER: How much is that a year?

MR. FAIRWEATHER: I would not want to be quoted offhand -- I might mislead you. But it is all in the statement, sir, and it is a fairly substantial amount.

COMMISSIONER WEBSTER: You would not venture an opinion as to the reasons for moving from Forty-second Street away up to Fifty-second Street?

MR. FAIRWEATHER: Oh yes, I could venture an opinion on that; I know exactly why Sir Henry Thornton thought that was desirable.

COMMISSIONER WEBSTER: Would you mind stating it?

MR. FAIRWEATHER: Sir Henry held this view with regard to the New York office: that New York is the commercial centre of this continent; that directly and indirectly, as regards both passenger and freight business, New York exercises a very decided influence on Canadian affairs. When he first came to the system he found the Canadian National with offices on the third floor of an office building on a corner of Broadway, with the elevated railway running right under it, and he decided that that was not the sort of office the Canadian National should have. So we located at 505 Fifth Avenue, and it was really amazing to see how the traffic to and from United States points responded to that sort of outpost of Canada and of the Canadian National Railways. Sir Henryknew from his previous contact with citizens of the United States that most people had very little conception of Canada as a country, and so far as railways were concerned had no conception whatever; and that they continually confused the Canadian

National with the Canadian Pacific -- he himself had been asked whether he was an official of the Canadian Pacific Railway. You may smile, gentlemen, but I may say that a very high officer of the New York Central Railway, when I went down to interview him on certain proposed economies, was of the same opinion -- they knew nothing of Canada or of the Canadian National Railway. As I say, the figures which I will submit to you show such a marked increase in business that you could reach no other conclusion than that the moving to Fifth Avenue stimulated the interest in Canada and in the Canadian National. Now, sir, 505 Fifth Avenue was chosen at that time as the most strategic location that could be conveniently obtained. But as time went on it became very apparent that the centre of importance in New York City was moving uptown, as instanced by the fact that the Waldorf-Astoria deserted its location on Thirty-fourth Street and moved up to Fifty-second on the corner of Park Avenue; that leases generally in that territory were being abandoned by other people; that other transportation agencies particularly dealing in this tourist business, for instance the Great Northern, the Northern Pacific and the better class of steamship lines, were all moving uptown -- that is, were moving or had moved further uptown. Having regard to all that, and also to the fact that there was a corresponding drop in the tone of Fifth Avenue where we were located, we were faced with this proposition, that either we had to be content with a shop window -- and that is really the way Sir Henry viewed it -- next door to a delicatessen store, or we had to move. Sir Henry felt that 505 Fifth Avenue was in a section that

was going down. He regretted the judgment that had placed him there in the first place, but he received an offer of a much more favourable location, and at that time -- mind you, when this decision was made, things were in their heyday --

LORD ASHFIELD: When was it?

MR. FAIRWEATHER: I think the decision to move was reached in the fall of 1928 -- I will check that up; but it took quite some time for the negotiations, and the offices were finally opened I think some time late in 1930, wasn't it?

MR. McLAREN: 1930, yes.

MR. FAIRWEATHER: Late in 1930. At the time we negotiated the new lease there would have been no difficulty whatever if we could have taken possession immediately in sub-letting 505 Fifth Avenue. The thing that happened to us as well as to many other commercial undertakings was that the depression hit, and then you could not rent anything on Fifth Avenue for any money. But it is interesting to note also that even through the depression, certainly through the depression of 1930, that increase in traffic which I previously mentioned continued, and as a gateway to Canada I suppose 505 Fifth Avenue had more advertising value than any other single thing that the Canadian National Railways could do.

COMMISSIONER WEBSTER: The criticism has been made -- it may be ill-founded, and perhaps Mr. Loree can help us -- that the move was premature; that at Forty-second Street very important railways are congregating; that they have offices not necessarily on the ground floor but on the second and third, and so on, and that the office at 505 Fifth Avenue was good enough for some years. Mr. Loree, could you enlighten us on that?

COMMISSIONER LOREE: I think the tendency has been for such lines as the Great Northern, the Northern Pacific, and others, to take corner locations on the ground floor further uptown.

COMMISSIONER WEBSTER: Where are they now?

COMMISSIONER LOREE: Fifty-second, Fifty-third, Fifty-fourth streets.

COMMISSIONER WEBSTER: The suggestion made in that respect, then, is evidently not quite correct. Thank you, Mr. Fairweather.

COMMISSIONER LEMAN: As a railway man, Mr. Fairweather, do you consider that the colonization, natural resources and mineral resources departments are a necessary adjunct to your activities as a railway, or that they should be left to governmental agencies?

MR. FAIRWEATHER: Do you want me to answer as a railroad man? I would say -- and this perhaps is going to hurt -- that if efficient government departments were in existence, those activities are no part of the railway's business. But by sad experience in the past we have learned that when you lean upon the government departments for that little extra push that accomplishes results, you do not get it. They are there with statistics, but they are not there with that little final touch that locates an industry or locates a settler -- actually; and believe me, when a settler goes into this country and tackles a wilderness, whether it be on the prairie, in the mountains of British Columbia or in the clay belt of northern Ontario, he needs guidance, and it is not the sort of arm chair guidance that you would get from a pious pamphlet issued by a government department. You need somebody to go

right there, live with him and learn his difficulties and adapt him to his conditions; and that is where our agriculture and colonization department justifies itself. If the government departments had the necessary pep, to use a slang expression, we would not need to be doing it. Is that the answer?

COMMISSIONER LEMAN: Thank you.

SIR JOSEPH FLAVELLE: During the last three or four days we have seen two important hotels which are nearing completion, one in Vancouver and one in Saskatoon. Is it part of your economy measure to keep these closed during this year?

MR. FAIRWEATHER: Well, those hotels will not be available until some time in 1932. Our present programme is directed at carrying on the work with a minimum of expense. As to whether those hotels will or will not be opened in 1932, I regret, Sir Joseph, I have no instructions.

MR. MALLORY: It has been fairly well decided that with regard to the hotel at Saskatoon it will be completed for operation during 1932, but the Vancouver hotel not until some time in 1933.

MR. FAIRWEATHER: But will it be open for operation, or will it remain closed?

MR. MALLORY: The intention is, of course, as soon as construction is completed, that furnishings will be made and the hotels opened for business.

SIR JOSEPH FLAVELLE: It is unquestionably true that they will lose money.

MR. FAIRWEATHER: It is a foregone conclusion, Sir Joseph, that the Saskatoon hotel will lose money.

SIR JOSEPH FLAVELLE: Why open them?

MR. FAIRWEATHER: As I say, Sir Joseph, I have re-

ceived no instructions.

SIR JOSEPH FLAVELLE: I am thinking of this economy programme.

MR. FAIRWEATHER: Well, if I might speak personally at this time, I would hesitate very seriously to open them. But I am speaking personally.

SIR JOSEPH FLAVELLE: You see, Mr. Fairweather, when we come to a situation where we are faced with certain loss in our enterprises, running into millions or tens of millions, we must seriously ask ourselves, shall we go on; and if we go on, shall we proceed only to the extent to which we can reasonably hope to wash our hands. These figures give no evidence of progress that way, but rather of progress the opposite way. As you have yourself indicated, the reduction in the expenses will not be equivalent to the reduction of gross revenue. I have no thought of putting you in an awkward position; you are an officer of the corporation, and your chief is absent. I am only thinking as any serious man would that the statement which you are now presenting, indicating that the loss this year will run into very serious figures, does not go far enough to give any hope that the economies projected will hold the loss where it is.

MR. FAIRWEATHER: Well, Sir Joseph, might I say this: with regard to certain of the functions of the railway or auxiliary services of the railway, I would find myself largely in agreement with you. But with regard to the main function of the railway we stand, as I see it, in the position of trustees to furnish the transportation necessary for the country; and if it so happens that the revenues received will not pay for that transportation service, we can-

not be held responsible for such a condition. I some time ago indicated that the rate structure was a very pertinent part of this whole programme, and I still think that is so. But we as managers of the property are faced simply with this problem: we have certain traffic to carry; that traffic, at the rates which we get, will not pay for the cost of service. Now, what can we do about it? We can cut down to the bone on expenses. We can with regard to those of our employees who are on wage agreement negotiate with them for reduction in wages, and we have done that. You see what happened when we did that; we got a majority award, but the men are now hesitating as to whether or not they will take a strike vote. With regard to the employees who are not on wage schedule, we can and have reduced their pay; officers have taken a ten per cent cut, and the employees generally have taken a ten per cent cut.

SIR JOSEPH FLAVELLE: It is suggested that when the Saskatoon hotel is ready for occupation some time in 1932 it will be opened. I am only raising this point, that when men find themselves in a difficult situation and must seek to reduce expenses, they should consider seriously the question of opening up a further enterprise which will add to the loss.

MR. FAIRWEATHER: Quite.

SIR JOSEPH FLAVELLE: The fact that somebody else pays the loss may unconsciously affect those who are determining what the expense will be. Most of us have to pay it out of our taxes; not many of us have a government to pay it -- I do not mean that offensively at all, but I suggest it as a psychological factor. If it were my business and

I were confronted with the sort of profit and loss sheet that you are confronted with, even if I had to admit I had made a grievous mistake in building my hotel or my pair of hotels at such a cost, I would not operate them if it was going to cost me more to operate them than to leave them alone.

MR. FAIRWEATHER: I thoroughly agree with you, Sir Joseph.

SIR JOSEPH FLAVELLE: The operation of the hotel is actually going to return you in dollars very much less than the cost of running it, under existing conditions.

MR. MALLORY: May I say a word, Sir Joseph, in that connection?

SIR JOSEPH FLAVELLE: Yes.

MR. MALLORY: When you raised the question as to the hotels I may have misunderstood you in that I thought you were referring particularly to the progress of the work and had in mind the question of when these properties would be ready for occupation. Now, as far as our budget is concerned, that is the line-up -- the Saskatoon hotel will be ready for occupation in 1932 and the Vancouver hotel in 1933. But the continuance of capital expenditures on those two properties is of course subject to the approval by Parliament of our budget for additions and betterments. That has to be obtained; at least we have got to get the approval of the Government before we can enter into capital expenditures.

SIR JOSEPH FLAVELLE: Well, you are still going on spending money on them.

MR. MALLORY: We are still working on our budget for 1931.

SIR JOSEPH FLAVELLE: The budget that was approved by Parliament this year?

MR. MALLORY: Yes.

THE CHAIRMAN: That would be the proposal of your officials to Parliament?

MR. MALLORY: Yes.

COMMISSIONER WEBSTER: What proposal, sir?

THE CHAIRMAN: The opening of one hotel in 1932 and the other in 1933.

LORD ASHFIELD: It might be pertinent to ask how this appropriation works out. Have you an appropriation for the completion of the hotels, including the furnishings?

MR. MALLORY: No sir.

LORD ASHFIELD: How far does the appropriation go?

MR. MALLORY: Just to cover the expenditures within the calendar year 1931.

LORD ASHFIELD: You still have to deal with 1932, which is the completion of the hotel and the furnishings?

MR. MALLORY: Yes sir, our estimates for 1931, excepting that we gave the estimated cost to complete, less moneys previously expended in 1928, 1929 and 1930, and the amount proposed to be expended during 1931.

COMMISSIONER LEMAN: You would not anticipate unfavourable action by the Government in the way of allowing the contractors to go on?

MR. FAIRWEATHER: No sir, that is to say, existing contracts will have to be respected -- when we got our first appropriation we were authorized to enter into a contract for the completion of the hotel. If the Government should decide to withhold the money we would be up against a damage claim, if that is the point.

LORD ASHFIELD: Have you entered into contracts which mean the practical completion of the hotel and furnishings?

MR. FAIRWEATHER: As regards the hotel itself, absolutely.

LORD ASHFIELD: The building itself?

MR. FAIRWEATHER: Yes.

LORD ASHFIELD: And the furnishings?

MR. FAIRWEATHER: And the mechanical equipment. So far as the furnishings are concerned, I believe it is our policy to purchase them ourselves.

LORD ASHFIELD: So that there is no commitment in that respect?

MR. FAIRWEATHER: No.

THE CHAIRMAN: Well, I think we had better adjourn. Thank you very much, Mr. Fairweather.

The Commission adjourned at 7.45 p.m.